FINANCIAL TIMES

Downsizing
Workers worldwide are rejecting restructuring
Personal view, Page 12

Brazil's Cardoso
Margaret Thatcher in a tweed jacket?
Page 13

Mars probe
Pathfinder mission seeks cheaper way
Technology, Page 21

South Africa
Better to lose people than money
Page 4

World Business Newspaper http://www.FT.com THURSDAY JULY 3 1997

UK breaching beef export ban, says Brussels

The European Commission is considering legal action against Britain for alleged illegal exports of British beef to EU and other countries. The commission said inspection visits had "confirmed its suspicions" that unspecified quantities of British beef were being fraudulently exported. The EU banned British beef exports last year after the UK government said the meat might cause CJD, a human form of the fatal mad cow disease. Page 2

Axa to merge subsidiaries: Big French-based insurer Axa is to merge subsidiaries Sun Life & Provincial and Axa Equity & Law to create the UK's third biggest life company. Page 15

European links planned for AT&T: Stet of Italy and the pan-European telecoms partnership Unisource unveiled plans for strategic alliances with AT&T of the US, to strengthen their European and Latin American operations. AT&T and Stet will first link to offer services to big international customers. Later Stet will join a pan-European venture set up by AT&T and Unisource. Page 15

US rates held steady: The Fed opted to hold US interest rates steady amid signs that economic growth has slowed since the first quarter. The federal funds rate remains 5.50 per cent. Earlier bonds report, Page 22

Prison camp for spy: Former Russian defence industry official Valery Sintsov was sentenced to 10 years in a prison camp by the country's Supreme Court after being convicted of spying for Britain. He had admitted giving Britain details of Russian weapons development.

Fujitsu to build chip plant: Leading Japanese chip maker Fujitsu is investing Y150bn ($1.3bn) in a semiconductor factory in northern Japan. Page 15

Israeli government paralysed: Violence spread in Hebron and the Gaza Strip while Israeli prime minister Benjamin Netanyahu and David Levy, foreign minister, were deadlocked over the form of an inner cabinet. Page 4

Albania coup fears: Fears of a military takeover swept Albania after President Sali Berisha ordered the republican guard to seal off Tirana following the overwhelming defeat of his Democratic party by the Socialists in Sunday's elections. Page 2

Army pledge to Bosnian president: The Bosnian Serb army appeared to back Serb president Biljana Plavsic in her battle with hardliners. In a statement on Banja Luka radio, the army said it would "respect" her authority as commander-in-chief.

Japan tackles oil spill: Japan mobilised more than 100 ships to contain an oil slick in Tokyo Bay. Prime minister Ryutaro Hashimoto declared the spill from the Japanese-operated Diamond Grace a national disaster after the supertanker ruptured two holds, leaking an estimated 13,400 tonnes of crude. Page 6

Taiwan eases rules: Taiwanese companies can seeking share listings on domestic and foreign stock exchanges simultaneously under a rule that came into effect yesterday. But they will not be allowed listings in communist China or vice-versa. Page 6

Hot dinner: Teardrop, an 8ft pet boa constrictor, swallowed an electric blanket, complete with flex and control unit, at its home in the US state of Oregon

Hong Kong holiday hit by downpours:

A fireman in diving gear checks a submerged car in Hong Kong where heavy rain caused floods and landslides. The downpour forced organisers to cancel a parade on the last day of a holiday celebrating the territory's reunion with China. Chinese shares tumble, Page 6

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7,701.52	(-20.81)
NASDAQ Composite	1,445.57	(+7.32)
Europe and Far East		
CAC40	2,909.45	(-34.58)
DAX	3,854.76	(+34.91)
FTSE 100	4,751.4	(+23.1)
Nikkei	20,196.42	(+20.90)

US LUNCHTIME RATES

Federal Funds	5⅝%
3-mth Treas Bills: Yld	5.218%
Long Bond	98⅞
Yield	6.712%

OTHER RATES

UK: 3-mo Interbank	6⅞%	(same)
UK: 10 yr Gilt	101⅞	(101⅝)
France: 10 yr OAT	99.76	(99.67)
Germany: 10 yr Bund	102.60	(same)
Japan: 10 yr JGB	104.7276	(104.692)

NORTH SEA OIL (Argus)

Brent Dated	$18.825	(18.655)

GOLD

New York: Comex		
(July)	$331.3	(334.0)
London:		
close	$332.35	(334.65)

DOLLAR

New York: lunchtime		
£	1.66665	
DM	1.7535	
FFr	5.9073	
SFr	1.47105	
Y	114.44	
London:		
£	1.6603	(1.6582)
DM	1.7511	(1.7401)
FFr	5.8997	(5.8635)
SFr	1.4691	(1.4594)
Y	114.415	(114.79)
Tokyo close:	Y 114.65	

STERLING

DM	2.8990	(2.8854)

Thai currency regime scrapped

Shares climb as baht is freed from link with dollar

By William Barnes in Bangkok

The Thai authorities admitted yesterday that the cost of keeping the baht pegged to the US dollar was too painful and freed it in a "managed float".

The currency fell more than 17 per cent against the dollar, slipping from about Bt24.5 to the dollar on Tuesday night to Bt28.8 in offshore markets. The domestic rate, still protected by recently introduced exchange controls, was Bt28.

The authorities' decision to scrap a 13-year-old currency regime that has helped propel Thailand into the ranks of the tiger economies sent ripples around east Asia. The Philippine authorities spent hundreds of millions of dollars defending the peso, and the Malaysian central bank moved to protect its own currency.

The International Monetary Fund and the Bank of Japan offered support, although most analysts believe Thailand's most serious problem is solving its internal bad debt crisis.

Mr Thanong Bidaya, the new finance minister, said the cheaper currency would cause some pain but would relieve pressure on the slowing economy by allowing interest rates to fall and exports to rise. "What needed to be done we have done," Mr Thanong said. "The markets should welcome this."

Share prices climbed 7.87 per cent on a wave of investment by foreign funds, which appeared to have been waiting for a resolution of the currency dilemma.

As a "temporary" defensive measure the Bank of Thailand raised its discount rate 2 percentage points to 12.5 per cent, which it admitted would make its already much-reduced forecast of 5.9 per cent GDP growth this year unobtainable.

Observers said the move would also help push into bankruptcy many of the weaker companies which borred heavily abroad under the old currency regime. It is estimated that some $45bn of corporate debt will become due within the next 12 months.

The central bank said it would provide soft loans totalling up to Bt20bn to companies in "priority industries" hurt by the currency float. Mr Rerngchai Marakanond, bank governor, said the central bank would provide the loans at an annual 8 per cent interest rate, well below the 12.75 per cent prime rate, to "companies that are productive toward the Thai economy".

But there was relief in many quarters that a bitter struggle to defend the baht with high interest rates and costly forays into the foreign exchange markets had been abandoned.

The stable exchange rate has been a tremendous boon to the economy since the mid-1980s when it helped attract Japanese manufacturers seeking refuge from a rising yen.

However, the freeing up of Bangkok's financial system in recent years has allowed Thai-based businessmen to take out cheap foreign loans facing almost no foreign currency risk.

"That helped create a bubble economy whose remains we are struggling to deal with," said Ammar Siamwalla, an economist at the Thailand Development and Research Institute.

The Bank of Thailand's reserves have been drained in defending the old system. Official foreign reserves fell $4bn in May to $33.3bn – the lowest level in two years.

There was still uncertainty last night about how the Bank of Thailand proposes to "manage" the currency. The bank said it had identified a target rate but this was not disclosed.

Will Thai equities turn?

Bangkok banking on the unorthodox, Page 6; Lex, Page 14
Currencies, Page 23
World markets, Page 34

Labour unveils 5-year deficit reduction plan in first Budget in 18 years

UK 'set to meet' European currency target

By Peter Martin and Markets Staff in London

The UK will be "comfortably within" the criteria for European monetary union in both debt and deficits this year and for the foreseeable future, Mr Gordon Brown, chancellor of the exchequer, forecast in the first budget presented by a British Labour government for 18 years.

He announced a five-year deficit reduction plan, a one-off windfall profits tax on "excess" profits of privatised utilities and a net increase in corporate taxation.

Bond and equity markets were disappointed, however, that he had not done more to restrain booming consumer demand. Ten-year gilts fell by a full percentage point and traders attributed this to inflation fears. Short sterling contracts, which reflect interest rate expectations, also fell.

Mr Andrew Roberts, a bond analyst in London at UBS, the Swiss bank, said: "The fall in short sterling, combined with sterling's rise, means the market is now fully discounting a 25 basis point [0.25 percentage point] monetary tightening at next week's meeting of the Bank of England's monetary policy committee."

Expectations of higher interest rates pushed sterling to a five-year high against the D-Mark, with the pound jumping to DM2.927 in late trading.

In after-hours trading on Liffe, the London derivatives exchange, the price of stock-index futures contracts fell, suggesting that the FTSE share index might open 30 points lower today.

The windfall tax on utilities, to be paid in two instalments this year and next, would raise £5.2bn ($8.6bn). Of this, £2.1bn will come from electricity, £1.65bn from water and £1.45bn from other privatised regulated companies such as British Telecommunications and BAA, the airports operator.

Mr Brown announced a 2 percentage point cut in corporate taxes to 31 per cent and a similar reduction for small business to 21 per cent. Both were made retroactive to April 1 in a bid, together with other measures, to encourage companies to step up capital investment at a favourable point in the economic cycle.

However, critics said the removal of dividend tax credits paid to pension funds and companies would more than offset the corporation tax cut.

Mr Brown forecast that UK GDP would grow a robust 3.25 per cent this year and 2.5 per cent next year before returning to its 2.25 per cent trend rate. The inflation rate was expected to remain at the government's target of 2.5 per cent this year, rising to 2.75 per cent next year before returning to 2.5 per cent in 1999.

The Labour government, which has adopted the previous government's spending estimates for the next two years, also announced a plan to cut borrowing to £13.25bn this year and to £5.5bn next year. In the year to April 1998, the Maastricht treaty requirements for entry to the planned single European currency will be 1.5 per cent of GDP.

The government has indicated that it is unlikely to join the single European currency in the first wave.

Mr Brown also unveiled a welfare system overhaul to provide opportunities to the unemployed and poorly paid.

UK chancellor of the exchequer Gordon Brown presents his new Budget box in Downing Street before his first Budget speech in which he announced a deficit reduction plan Picture: Brendan Corr

Editorial Comment, Page 8; Details, Page 9; Lex, Page 14

Paris looks at raising taxes on businesses

By Andrew Jack in Paris

French share prices dropped sharply yesterday after the new Socialist government said it was considering levying additional taxes on businesses to reduce the budget deficit.

Ms Catherine Trautmann, government spokeswoman, confirmed that proposals might be put forward in the next parliamentary session in September to impose taxes on companies "which have made profits". She also said a system of administrative approval for companies to lay off employees was likely to be reintroduced.

The proposals come amid indications that the country's deficit for 1997 will be well above the 3 per cent of gross domestic product theoretically required for its membership of the European single currency.

Ms Trautmann said the taxes would affect the "richest" companies most. Her words pushed the CAC-40 index of quoted French companies down by more than

Continued on Page 14
World stocks, Page 31

Cinven buys UK-French health interests for $1.8bn

By Katharine Campbell and Roger Taylor in London

Cinven, one of the UK's leading private equity specialists, yesterday beat off competitors to complete a groundbreaking £1.1bn ($1.8bn) deal to acquire the UK and French hospital and healthcare interests of Compagnie Générale des Eaux, the French conglomerate.

It is thought to be the largest management buy-out since the ill-fated and debt-laden £2.4bn Gateway supermarket group transaction – technically a buy-in because it incorporated new management – was completed in 1989.

The deal, which underlines the increasing firepower of financial buyers in the UK and across the Continent, will result in Cinven owning the largest private healthcare providers both sides of the English Channel.

In the UK, Cinven is paying £570m for General Healthcare Group, which it plans to merge with Amicus Healthcare – acquired by Cinven in 1995, creating the country's biggest private hospital company.

The French business, Générale de Santé, is four times the size of the next largest hospital operator and is being sold for FFr3.5bn ($600m).

Analysts warned that the company was in a relatively poor state, which was reflected in the fact that it sold for considerably less than the UK business, even though its turnover was twice that of the UK company.

Cinven said it planned to invest FFr2.5bn in Générale de Santé over the next five years, with FFr1bn going towards restructuring.

Mr Simon Rowlands, a director of Cinven, said the businesses would be run separately by the management teams and would aim to exploit the opportunities presented by the growing partnership between private and public healthcare sectors - a process he believed would continue in spite of the election of leftwing governments in both countries.

He said the multiple of earnings before interest, tax and depreciation paid for both businesses was "in single figures – just".

Générale des Eaux announced in February it planned to sell its healthcare interests as part of a series of disposals to reduce debt.

In a fiercely contested auction held by Lazard Frères in Paris, Cinven is understood to have beaten off Columbia of the US as well as BC Partners, another private equity house, in the final stages.

The company's underwriting commitment of £225m of the equity – its largest – represents a significant proportion of its total investment portfolio which stands at £1.5bn.

Unusually, Cinven, which has worked on the deal for seven months, retained investment banking advisers – N M Rothschild and its French associate – reflecting the complexity of the deal and the necessity of local contacts to

Continued on Page 14

CONTENTS

LONDON · LEEDS · PARIS · FRANKFURT · STOCKHOLM · MADRID · NEW YORK · LOS ANGELES · TOKYO · HONG KONG

مكتبات الأصل

Commission considers legal action over 'manifest ineffectiveness' of British export controls

Brussels says UK breaches beef ban

By Neil Buckley in Brussels and Maggie Urry in London

The European Commission was accused of risking a new "mad cow" panic across continental Europe yesterday after it alleged the UK was breaching the worldwide ban on British beef exports.

The Commission said inspection visits had "confirmed its suspicions" that unspecified quantities of British beef were being fraudulently exported to European Union and other countries. It was considering legal action over the "manifest ineffectiveness" of UK controls.

The UK agriculture ministry said it was giving "urgent consideration" to the allegations and "action will be taken if evidence is found of illegal trade".

Brussels insisted the timing of the announcement was not linked to the renewal of UK efforts yesterday to get the beef export ban overturned by the European Court of Justice in Luxembourg.

The ban was imposed by the Commission 16 months ago after disclosure of a possible link between mad cow disease, or BSE, and a fatal human brain disease.

But the Commission angered consumer groups by refusing to name the importing countries, specify the quantities, or suggest whether high-risk products were involved in the alleged fraud. It insisted the information was the subject of a judicial inquiry by various police forces. An official later suggested that one destination country was France, where beef had been exported via Belgium.

BEUC, the Europe-wide consumers' organisation, said it was "totally unacceptable" for Brussels not to publish all available information. "Consumers have the right to know all the details if the ban is being infringed," it said. "Withholding information of this sort does absolutely nothing to restore consumer confidence in beef."

UK beef producers reacted with concern. The Ulster Farmers' Union said: "This will do nothing to bring forward the day when legal exports can resume." The National Farmers' Union of England and Wales said it condemned any breach of the law "which would undermine both consumers' and producers' confidence".

The Commission said it had urged EU states to tighten import controls on beef and to work closely with its own inspectors.

Officials said they had had suspicions for several months that UK beef was finding its way around the export ban. They now had "hard evidence" that beef was being exported using falsified documents to both EU and non-EU countries.

The French satirical newspaper Le Canard Enchaîné yesterday alleged that beef was being fraudulently exported from Northern Ireland to Belgium and southern Italy on false papers. Citing what it claimed to be a telegram circulated by Interpol at Wiesbaden, Germany, last month, it said members of UK forces in Northern Ireland were implicated in the smuggling.

Common rules urged for bond markets

By Sander Thoenes in Brussels

European experts called yesterday for improved harmonisation of financial market practices in the European Union before the single currency's planned launch in 1999.

In a report commissioned by the European Commission, experts from stock exchanges, universities and commercial and investment banks urged countries to coordinate bond issues and markets to adopt common rules. Governments already issue bonds in the European Currency Unit, the euro's forerunner, but liquidity is hampered because Ecu bonds vary from country to country.

If these differences remain, international conglomerates in particular could see their euro debt issues frustrated by confusion over which market practice applies. "The euro market will certainly exist under current conditions," a Commission expert said. "But it would be less liquid and less effective."

The group called on EU governments to co-ordinate bond issues to avoid glutting the market, but the Commission expert warned that this logic might not prevail against the national interest in issuing bonds when the expected return is most appealing.

"The issuing countries have an interest in co-ordination," he said. "But some countries will want to keep a competitive edge." In the absence of a single treasury to set benchmark rates for non-government bonds, he added, "some countries are anxious to become the benchmark countries".

Member states will also have to decide whether to redenominate government debt stocks into euros to boost liquidity. The expert cautioned that the cost of redenomination might exceed the benefit for countries which mostly issued short-term debt.

The group recommended that the redenomination of government and non-government debt should occur "bottom up", converting the overall value of individual bond holdings. The alternative, to break up bond issues in units that offer a round figure, could distort bond value.

The group urged markets to end mundane but potentially costly differences, such as the number of days used as a basis for calculating interest accrued in bonds.

It recommended basing calculations on the actual number of days in a month divided by the actual number of days in that year, rather than assuming a month has 30 days and a year 360 days, as some markets do.

The expert group foresaw fewer challenges to stock markets but suggested that companies move to "non-par value shares", listed merely as a fraction of overall stock, rather than physical share certificates that would force companies to recapitalise upon introduction of the euro. This would require that laws be changed in some countries.

Editorial Comment, Page 13

Bonn appoints telecoms watchdog

By Ralph Atkins in Bonn

Mr Klaus-Dieter Scheurle, a senior civil servant in the German post ministry, was yesterday appointed president of the country's new post and telecommunications regulatory authority.

The head of the authority will be responsible for preventing Deutsche Telekom exploiting unfairly its dominant position and for ensuring competition develops once Germany's telecommunications market is fully liberalised next January.

However, the appointment of Mr Scheurle, 42, is likely to disappoint some of Germany's new telecommunications companies which would have preferred someone from outside politics and with more business experience.

Mr Scheurle is also on the supervisory board of T-Mobil, the mobile telephone operation of Deutsche Telekom, which is still majority owned by the state, but he is now expected to resign this position.

The German cabinet's decision overturned a recommendation by the post ministry's regulatory council in favour of Mr Peter Landsberg, former chairman of Alcatel SEL, the electronics and engineering group.

The council, which is made up of state communications ministers and Bundestag members, had twice rejected Mr Scheurle, who worked with Chancellor Helmut Kohl's Christian Democratic and Christian Social Union in parliament between 1989 and 1993.

The cabinet, however, accepted the council's suggestion that Mr Arne Börnsen, a senior figure in the opposition Social Democratic party, be made vice president of the new authority. The other vice president is Mr Volker Schlegel, head of the economics department of Germany's embassy in Washington.

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Berisha stirs Albania coup fears

Guy Dinmore reports on moves to calm post-election nerves in Tirana

Albanian monarchists, denouncing referendum results showing that voters had rejected the self-proclaimed king, Leka I, burn Socialist posters in Tirana. Officials said 36 per cent had supported the return of the pretender

Fears of a military takeover swept Albania yesterday after President Sali Berisha ordered the republican guard to seal off Tirana following the overwhelming defeat of his Democratic party by the Socialists in Sunday's parliamentary elections.

Mr Bashkim Fino, the Socialist prime minister of the current interim coalition government, told a news conference he had countermanded what he said were the president's unconstitutional orders to deploy the republican guard and special police units.

An hour later, Mr Berisha called his own press conference to insist that he had ordered the deployment to protect the capital after the sudden departure of the interior minister, who is in charge of the state of emergency declared in March when the army disintegrated and mobs seized large amounts of weapons across the country.

"It's impossible to have a vacuum in this situation," said Mr Berisha, appearing nervous and distracted.

It was not clear how many of the several hundred-strong republican guard had stayed in their barracks. Journalists saw one unit just south of Tirana on the road to the industrial city of Elbasan.

The president said it appeared his party had lost the elections and he repeated his pledge to accept the results despite irregularities. Clarifying his earlier commitments, he said he would resign after the Socialists formed a goverment. The new parliament is expected to appoint Mr Fatos Nano, the Socialist party leader, to succeed him.

Mr Berisha added: "Being in power is a privilege. Being in opposition is an honour. We will be active in the process of democracy."

Release of the official results of the elections has been delayed by several days. The Socialist party, the reformist heirs of the communists that ruled Albania for 46 years, claim they have won a two-thirds majority in parliament, enough to impeach Mr Berisha if he refuses to step down.

Western diplomats did not rule out the possibility of a coup, but Mr Fino insisted the moment of danger had passed. The streets of Tirana remained calm yesterday. A night-time curfew remains in force. Military officials said the police forces were generally loyal to Mr Fino.

"Last night was fraught with arguments between the prime minister and the president, but the streets were calm," Mr Fino said.

The prime minister said he had rejected an attempt by Mr Berisha to appoint a new interior minister. Mr Fino said Mr Belul Celo, the current interior minister and a Democratic party member, had told him he was leaving Albania for a short holiday and had not submitted his resignation.

Mr Nano denied there was a crisis. "Nobody can destabilise the situation any more, including Berisha," he said, adding that the republican guard remained calm and was loyal to the law and the government.

Several of the president's closest henchmen, including the police chief and the head of the presidential guard, left Albania this week, apparently out of fear of retribution at the hands of the victorious Socialists.

A second round of voting is due to be held next Sunday for constituencies where no candidate won more than 50 per cent in the first round. The Socialists say only a small number of run-offs would be held.

MasterCard in deal with its European ally

By George Graham, Banking Correspondent

MasterCard, the international payment card consortium, has struck a deal with Europay, its European ally, to promote its Maestro brand for use both as a debit card and in cash machines.

The agreement takes MasterCard another step forward in its drive to clarify its relationship with Europay, which manages the MasterCard brands in Europe, and is expected to clear up some of the confusion about which card is accepted where.

Under the new agreement Maestro will be promoted as the main debit card brand across Europe. It will also gradually replace Cirrus as the main MasterCard brand for cash withdrawals from automated teller machines.

Banks in Germany, traditionally a Europay stronghold, have agreed to move their customers from their current eurocheque debit cards – branded "edc" – to Maestro.

By the end of this year the first 25m German edc card holders should have Maestro cards, which they will be able to use either to withdraw cash or to make payments at the point of sale around the world.

In the UK, where the home-grown Switch card has become the leading debit card brand, banks will start to sign up shops and restaurants to accept Maestro payments, which will allow foreign visitors to pay by debit card. The agreement between MasterCard and Europay on debit cards follows a similar deal for credit cards struck last November.

That arrangement involved the creation of a new logo which placed Europay's Eurocard brand name in small white letters on top of MasterCard's traditional interlocking red and yellow circles.

MasterCard's relationship with Europay has traditionally given it a position of strength in countries such as Germany where the Eurocard was traditionally dominant.

However, it has also led to brand confusion, with card holders from Asia and North America often uncertain whether their card would be accepted.

Russia sees foreign reserves grow 55%

Rise to record $23.8bn helped by confidence in rouble

By John Thornhill in Moscow

Growing confidence in the Russian rouble has enabled the central bank to lift its international reserves this year by 55 per cent to a record $23.8bn, Mr Sergei Dubinin, the bank's governor, said yesterday.

But Mr Dubinin also revealed details of a high-level financial scam in which three commercial banks illegally diverted federal budget funds into the high-yielding government securities market.

The central bank estimates the government's loss at more than $400m and has asked the prosecutor-general to start an investigation.

It blamed the three unnamed banks for being partly responsible for delays in the government's pension and wage payments. Over the first six months of the year, Mr Dubinin said the central bank had been steadily printing roubles to buy dollars, expanding the monetary base by 26 per cent. Inflation in the same period was 8.4 per cent.

"We are not entertaining any particular illusions about a victory in the de-dollarisation of our economy," Mr Dubinin said. "But we are strengthening the potential for economic growth."

Economists welcomed the increase in the bank's international reserves as evidence that the government's stabilisation programme was working.

But Mr Pavel Teplukhin, chief economist at Troika-Dialog, a Moscow-based finance house, observed that a large part of the increase in reserves was due to a one-off move by the Gazprom gas monopoly to convert hard-currency earnings into roubles to pay its tax bill.

> 'We are not entertaining any illusions about a victory in the de-dollarisation of our economy'

"At present we have zero economic growth, but at the same time we are overcoming the slump," Mr Dubinin said. "There is growth in some sectors."

Government ministers have backed away from earlier forecasts that the economy would expand this year, but are building projections of 2 per cent growth into 1998 budget plans.

Mr Mikhail Kasyanov, a deputy finance minister, said the halving of the central bank's financing rate to 24 per cent this year and a decline in the annualised yields on benchmark Treasury bills to less than 20 per cent had provided the foundations for growth.

"The turning point will come when companies and banks invest in the productive sectors of the economy and give a real impulse to economic growth," he said in an interview. "That process is beginning to happen."

Mr Dubinin said the central bank was also strengthening its regulatory skills as the banking sector continued to consolidate.

He said the bank had withdrawn 715 licences from various financial institutions over the past few years, liquidating 368 of them and encouraging the rest to be absorbed by more stable banks. As of June 1, there were 1,747 banks in Russia.

EUROPEAN NEWS DIGEST

Ex-spy chief rehabilitated

Mr Sergei Stepashin, former head of Russia's revamped KGB intelligence agency and a leading Kremlin hawk during the Chechen conflict, was yesterday appointed justice minister in a move which horrified Russian liberals. Mr Stepashin is still widely blamed for his heavy-handed response to a hostage-taking crisis in the southern town of Budennovsk in June 1995 in which 120 people died.

Amid the public outcry after that incident, President Boris Yeltsin sacked Mr Stepashin as head of the FSB, heir to the KGB, but quietly appointed him later to head the government's administrative department.

Mr Stepashin replaces Mr Valentin Kovalyov, who was yesterday fired by Mr Yeltsin after the publication of photographs purportedly showing the justice minister cavorting with prostitutes in a bathhouse run by criminals. In a further sign of Mr Yeltsin's "revolving door" policy towards disgraced officials, the president yesterday appointed Mr Mikhail Kislyuk head of the federal service regulating natural transport monopolies. Earlier in the week, Mr Yeltsin removed the much-criticised Mr Kislyuk as head of the Kemerovo region. *John Thornhill, Moscow*

Schäuble concern over France

Mr Wolfgang Schäuble, who is widely seen as Chancellor Helmut Kohl's most likely successor, said yesterday that the launch of a single European currency could run into trouble if France failed to keep its budget deficit under control.

Parliamentary leader of the Christian Democrats and a staunch proponent of the euro, he said that if France's deficit were to reach a level of about 3.6 per cent of gross domestic product – far above the 3.0 per cent target laid down by the Maastricht treaty – "it would be a problem" for economic and monetary union. Mr Schäuble, speaking to ZDF television a week after France said it would not meet the 3.0 per cent deficit target this year, said all Emu participants had to achieve the Emu targets in 1997.

In another warning apparently aimed at France, Mr Theo Waigel, the German finance minister, said all countries joining Emu needed to have the same level of German-style stability. He wrote in the Bayernkurier, weekly newspaper of his Christian Social Union (CSU): "A chain is only as strong as its weakest link. So, at the beginning of the monetary union, only countries that are equally stable can join." *Reuter, Bonn*

Greece hails Aegean move

Greece said yesterday that a Turkish decision to limit military activity in the Aegean Sea was a positive move already practised by Athens to reduce tension between the two antagonistic Nato neighbours. "They say they would respect international rules and that their aircraft would not be armed [over the Aegean] which is positive. We'll wait and see whether the Turkish side means what it says," a government spokesman said. He added that Greece had already proposed extending the moratorium to September 15 but Ankara had yet to respond positively.

Turkey's armed forces said on Tuesday they would temporarily limit activity in the Aegean Sea to support Nato-led measures to reduce tension with Greece. They said the move was being made "to support the initiative of Nato secretary-general [Javier] Solana, who has made great efforts on measures to reduce tension in the Aegean and build confidence." *Reuter, Athens*

Slovak schoolbook withdrawn

Slovakia has withdrawn from schools a history book that denies that Jews were persecuted under the country's Nazi puppet regime during the second world war. The education ministry issued a terse announcement late on Tuesday saying it had ordered the immediate withdrawal of the book *The History of Slovakia and the Slovaks* by Milan Durica as a textbook.

The book, published by the ministry with financing from the European Union, had come under heavy criticism from Jewish groups and historians. Last week Mr Hans van den Broek, the EU commissioner for external relations, urged Slovakia – which wants to join the Union – to withdraw it.

However, the decision has outraged nationalist groups which are trying to rehabilitate the wartime state. "I don't see any pragmatic reason for this move, it is only a result of European Union pressure," said Mr Rafael Rafaj, spokesman for the Slovak National Party (SNS), which is a member of the three-party coalition and holds the education ministry. *Reuter, Bratislava*

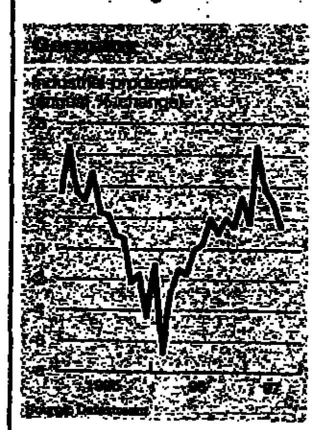
Slovenia regulates takeovers

The Slovenian parliament has passed its first law on company takeovers, giving the Securities Market Agency the power to oversee all purchases of more than 25 per cent of a company's shares. The law will only apply to companies listed on the Ljubljana bourse whose equity capital is worth at least Tl bn ($6.3m) – T800m for newly privatised companies – or which have more 500 shareholders.

The law is expected to come into effect at the end of July, providing it is passed by the State Council, the upper house of parliament. *Reuter, Ljubljana*

ECONOMIC WATCH

Gloomy outlook for Germany



About one in eight of Germany's labour force will be unemployed next year as the country experiences its longest period of slow growth since the second world war, a leading economic research institute forecast yesterday. Warning that strong exports and the return of a current account balance of payments surplus this year would not boost the economy as a whole, the Berlin-based DIW predicted growth of only 2 per cent in both 1997 and 1998. Following growth of 1.9 per cent in 1995 and 1.4 per cent last year, this would produce the longest post-war period of "quasi-stagnation".

The institute forecast that unemployment would rise to 4.68m next year from 4.38m in 1997, with the jobless rate advancing to 12.1 per cent from 11.4 per cent in 1997. In eastern Germany, the jobless rate would reach nearly 20 per cent next year.

The DIW is traditionally at the gloomy end of the German forecasting spectrum. But official industrial production figures yesterday gave little cause for optimism. The economics ministry said output fell in May by a real, seasonally adjusted 0.2 per cent from April after a 0.3 per cent rise in that month.

Compared with May 1996 and adjusted for the number of working days, industrial production was up 0.2 per cent after a 4.6 per cent rise in April. Although April production has been revised up from a 1.5 per cent fall, the ministry warned that the May data was liable to downward revision because May had fewer working days than April. *Peter Norman, Bonn*

Ukrainian tussle ends as PM quits

By John Thornhill in Moscow

Mr Leonid Kuchma, Ukraine's president, set about reconstructing his entire government yesterday after accepting Mr Pavlo Lazarenko's resignation as prime minister, ostensibly on the grounds of ill health.

The announcement ended a bizarre power struggle between Ukraine's two top politicians and could clear the way for the formation of a more radical government committed to pursuing desperately needed economic reforms.

Mr Kuchma must submit Mr Lazarenko's replacement for parliamentary approval and appoint a new cabinet within the next 60 days.

Mr Serhiy Tyhypko, the leading reformer in the government, has been tipped as a possible replacement for Mr Lazarenko. But the local media have also floated the names of Mr Anatoly Kinakh, head of the Ukrainian Union of Industrialists and Entrepreneurs, and those of several regional governors and parliamentarians.

Mr Lazarenko, who provoked fierce controversy in the short time he was in office, was in effect sidelined last month when Mr Kuchma appointed Mr Vasyl Durdynets, deputy prime minister, as acting prime minister.

At the time, the presidential press office said Mr Lazarenko was suffering from ill health, although the prime minister's aides denied the suggestion. The local media later speculated Mr Lazarenko had declared himself unwell as a ploy to avoid being sacked outright.

Appointed in June 1996, Mr Lazarenko quickly stirred controversy because of his allegedly close links to United Energy Systems, a highly profitable group which controls gas distribution in Ukraine.

He attracted criticism both from opposition leaders, who claimed his administration was deeply corrupt, and from western governments, which have strongly backed Ukraine's attempts to establish itself as an independent nation.

Mr Kuchma criticised Mr Lazarenko for failing to implement economic reforms and losing the trust of the International Monetary Fund. The government's budget for this year was only approved by parliament on June 27.

Schüssel mired in 'pig' of an affair

By Eric Frey in Vienna

Austria's foreign minister, Mr Wolfgang Schüssel, has been forced to patch up his relationship with the president of Germany's Bundesbank, Mr Hans Tietmeyer, after press reports that he called the central banker "a real pig".

Mr Schüssel, also leader of the conservative People's party, flew to Frankfurt on Tuesday to meet Mr Tietmeyer, who said afterwards that the issue had been settled.

The minister denied making the remark, but several journalists said they had heard it at an informal meeting during last month's European Union summit in Amsterdam. They said he had been commenting on Mr Tietmeyer's row with Germany's finance minister, Mr Theo Waigel, over revaluing the country's gold reserves.

According to these journalists, Mr Schüssel also referred to a Swedish minister as an "idiot" because of his handling of an environmental issue.

The remarks became public this week when "Focus", a German weekly, published the story. Subsequently, newspapers reported other slurs by Mr Schüssel against the Belarus president, Mr Alexander Lukashenko, and an African foreign minister.

Romania cries foul over football

New government's campaign against corruption treads on dangerous turf

The new Romanian government's fight against corruption and the legacy of former administrations is approaching dangerous ground – football.

Political controversy around the sport has been stirred by the decision of the sports minister, Mr Mihai Sorin Stanescu, to investigate Romania's National Football Federation, the authority responsible for regulating the domestic game and organising the national team's international tours.

Last week, Mr Stanescu threatened to resign over the lack of support on the issue from the rest of the government, including the obstruction of his deputy minister, Mr Emeric Jenai, a former football player. He later withdrew his threat.

Mr Stanescu is trying to press ahead with an inquiry into the financial affairs of the federation after seven Romanian clubs protested publicly about the way the footballing body has been taking an effective 10 per cent commission on foreign transfer fees over the past seven years.

The federation's story, as depicted by Mr Stanescu, is a familiar one in the former Soviet bloc. It begins in the legal vacuum left after the collapse of Communist rule, when a group of state managers turn an enterprise into their own private business. Thereafter, they use allies in the bureaucracy, and the continuing weakness of the state and the law to beat off attempts to inspect or regulate them.

In Romania in 1991, some leaders of what had been the state football organisation took this path, with the backing of several prominent Romanian football club managers.

Mr Stanescu has accused senior football officials of channelling federation business into their own private companies, themselves originally hived off from state property. These "tourism" concerns organise the trips abroad of the national team and its fans, as well as bookings for health clubs, hotels and saunas. The federation board was not available for comment on these allegations.

What is undisputed is that two of the most lucrative aspects of the football federation were the special rights given it in 1991 by the then government. One of these allows it to sell a large number of national lottery tickets; another, to take 10 per cent of all transfer fees of Romanian players, at home and abroad. In the following years, virtually the whole Romanian national team left to join foreign clubs for huge fees. The 1991 concession laid down that the football federation should pay 35 per cent of its tariff to the ministry. But according to the minister, it has regularly omitted to do so.

Gheorghe Hagi (right), the Romanian captain in the 1994 World Cup, was one of the first players to go abroad under the controversial transfer arrangements AP

Romania's football clubs have increasingly protested against this football federation tariff. Earlier this year, the president of the Steaua club, the former international star Marcel Puscas, was suspended and fined by the federation after he asked international football authorities to investigate its activities.

In response to the latest offensive by Mr Stanescu, supported by Mr Puscas, the football federation has simply refused to allow the sports ministry to inspect its books.

"The sports ministry has no right of control over the national soccer federation which is a private grouping of clubs," Mr Mircea Sandu, the federation's president said on national TV recently.

The federation argues that the 1991 government decree set it up as completely independent, not subject in any way to the ministry – especially since it receives no money from the state. Instead, it says, it is subject only to the international rules of Fifa and Uefa, the world and European football's governing bodies respectively.

Uefa said it was up to Fifa to take any action that might be necessary on the Romanian case. Fifa has so far chosen not to intervene, but precedent is not in Mr Stanescu's favour.

While Fifa has in the past turned a blind eye to authoritarian forms of government, it has in more recent times shown itself prepared to stop any official attempt to drag football into the murky world of political patronage.

Earlier this year, Fifa temporarily suspended Albania from international football after the world governing body had accused the government of unacceptable state interference in the sport. The move followed the summary removal by the Albanian secretary of sport of the general secretary of the local football federation and the dissolution of its executive committee.

Anatol Lieven, Jimmy Burns

Central Europeans warn over lack of banking supervisors

By George Graham, Banking Correspondent

Central European bankers have warned that international efforts to raise the standards of banking supervision will come to grief if more money is not spent on recruiting and training supervisory staff in their region.

The Basle committee on banking supervision, which groups supervisors from the leading industrialised countries, put forward in April a set of "core principles" designed to tighten supervision of banks, especially in emerging markets.

But a working party of bankers from countries such as Poland, Hungary, Slovenia, Croatia and the Baltic states warned this week that the supervisory authorities in their countries were still developing, and might bite off more than they could chew in their hurry to comply with the core principles.

"The working group is concerned that central European supervisors will impose upon themselves excessively short implementation timetables and may create overly detailed rules," the bankers reported after a meeting in Budapest.

Mr Charles Dallara, managing director of the Institute for International Finance, a Washington-based association of banks and financial institutions, said the report sounded a warning about the practicalities of implementing the Basle principles. "Reform will only be effective if it fully takes in account realities on the ground, in terms of the resources available to supervisors and the diversity of practical problems that banks face," he said.

The 25 Basle core principles stipulate bank supervisors must have operational independence, adequate resources and freedom from political interference.

The principles also say supervisors must impose capital adequacy standards no lower than the Basle ratios applied in the larger industrialised countries.

The Basle ratios require a bank to hold capital and reserves equivalent to at least 8 per cent of its total assets.

Although the central European bankers said they agreed with the principles in theory, they remained worried that the broad aims might be swamped by practical difficulties.

One of their biggest concerns is the high turnover of supervisory staff, since trained supervisors can easily earn more money in the private sector. The problem of keeping supervisory staff is familiar in the UK and the US, but the central European bankers said it was "significantly more acute" in their region.

High staff turnover not only leads to inefficiency, since new supervisors need to be trained and may not notice trouble spots as easily, but also raises concerns about confidentiality.

"Confidentiality of both proprietary business plans and risk management strategies is at significant risk of being compromised when high turnover of bank supervisory staff results in former supervisors becoming current competitors," the working group warned.

The bankers warned that they would be unable to discuss issues frankly with their supervisors if they could not be assured of greater confidentiality, and called for conflict of interest clauses to be included in supervisors' employment contracts.

Asia pulls in western cash, Page4

NEWS: INTERNATIONAL

Cabinet row paralyses Israeli government

By Judy Dempsey and Avi Machlis in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, and Mr David Levy, the foreign minister, were yesterday locked in disagreement over the future shape of an inner cabinet, while violence spread in Hebron and the Gaza Strip, where a Palestinian youth was shot dead by an Israeli soldier.

The youth was killed after the Israeli army fired on Palestinians demonstrating over land which Jewish settlers had tried to confiscate. In the West Bank town of Hebron, Palestinians threw stones and petrol bombs, enraged by posters which had been pasted up on the front of Hebron shops.

The posters depicted a pig in Arab head-dress with the word Mohammed written on them.

The pig was portrayed stomping with one foot on the Koran, the Moslem holy book, while holding a pen in the other. The pig is regarded as unclean by both Moslems and Jews. Although Mr Netanyahu and President Ezer Weizman immediately condemned the posters, the depiction of the prophet Mohammed in this manner has angered Arabs.

Police this week detained Ms Tatiana Suskin, a Russian Jewish immigrant, who is suspected of putting up the posters. She is expected to be charged today.

But her arrest has not diluted the rage felt by Moslems, who fear justice will be lenient.

On Monday police released from detention Mr Nahum Korman, a settler from Hadar Betar, who allegedly killed a Palestinian child. He had been in prison for less than nine months. He has been banned from entering the occupied territories.

Palestinian leaders have repeatedly warned that unless the peace talks are resumed, they would be unable to prevent the outbursts of violence caused by an economy still strangled by the Israeli authorities and a peace process at a standstill.

The paralysis in the peace process is reflected in the wrangling between Mr Netanyahu and Mr Levy. Government decision-making has come to a halt. Their disagreement has prevented the prime minister from presenting a cabinet reshuffle to parliament.

It is unclear what Mr Levy really wants.

He has protested about being left out of the decision-making process although he is a member of the inner cabinet which deals with the peace process.

He has welcomed the appointment to the finance ministry of Mr Ariel Sharon, the infrastructure minister, and has not opposed his admittance to the inner cabinet.

On the other hand, he has insisted the inner cabinet be dissolved, apparently fearing that Mr Sharon will have too much say in that cabinet, thus diluting the foreign minister's influence.

A government official said presentation of the cabinet could take place early next week if Mr Netanyahu and Mr Levy resolve their differences by the weekend.

INTERNATIONAL NEWS DIGEST

Asia pulls in western cash

Asia is still the main magnet for capital from industrialised countries, but new lending to Latin America and Eastern Europe accelerated sharply in the second half of 1996, the Bank for International Settlements (BIS) said yesterday.

European banks also strengthened their hold on international bank lending, but the BIS noted North American banks were expanding further with a strong upsurge in credits to Russia.

New lending by banks in industrial nations to Latin America, the Middle East, Africa, Asia and Eastern Europe set a record of $77.6bn in the second half of last year with outstanding claims rising to $993.1bn at the end of 1996.

The BIS said in its latest semi-annual report on international bank lending that the record bank activity seemed to be little affected by the growing popularity of stocks and bonds from emerging markets, strains in some countries' banking systems, large current account deficits or widespread attempts to limit reliance on volatile short-term capital flows.

In spite of growing caution by lenders towards certain countries, BIS said lending to Asia rose by $31.3bn with Korean borrowers the most active, followed by Indonesia, China, the Philippines and Malaysia. *Reuter, Zurich*

3 die in Egyptian land riots

Egyptian police have arrested 45 farmers after a shoot-out in which three people died. Security forces fired on farmers in southern Egypt protesting over a new law that would sharply raise the rent of agricultural land. A 70-year-old farmer, a 14-year-old boy and a woman, were killed.

The farmers were arrested for illegally carrying weapons and for rioting.

The new law, part of a government drive to privatise the economy, removes rents controls from agricultural land. Annual rents in some cases would double or triple.

The new law has enraged poor farmers, who have launched protests and started organising in some regions to try to get the law overturned. President Hosni Mubarak was quoted by Egyptian newspapers yesterday as saying that many farmers who are forced off land will be relocated to reclaimed desert areas that the government is promoting. *AP, Assiut*

Morocco looks to 6% growth

Morocco expects economic growth of 6 per cent and inflation of 3.5 per cent by the year 2001 compared with zero growth and inflation of 3 to 4 per cent this year, the finance minister, Mr Mohamed Kabbaj, said.

The forecast was based on a normal agricultural season and resumption of tourism, Mr Kabbaj said.

The current account deficit is expected to remain below 2 per cent of GDP in the year to June 30, 2001 compared with 1.5 per cent in 1997, Mr Kabbaj said. *Reuter, Rabat*

S Africa 'loses' more than 4m people

And the richest citizens are leaving their surplus wealth in the country, writes Roger Matthews

South Africans learned two surprising things about themselves this week, both of which could have important implications for government economic policy. First, there are fewer of them than had been previously thought. Second, the wealthiest seem content, at least for now, to leave their surplus cash in the country.

The bigger shock was the disclosure by the Central Statistical Service that the population is 10 per cent smaller than estimated. So surprised were the statisticians that provisional figures have been rushed out, months ahead of schedule.

According to early data drawn from the census carried out on October 9-10 last year, South Africa's population is 37.9m, compared with an estimated 42.1m, a projection based on the last census in 1991. In other semi-official publications, the population has been given as high as 44.6m.

The other surprising figure came from the Reserve Bank. Despite years of concern that South Africans would rush to get their money out of the country once exchange controls were eased, the first day of a more relaxed era saw applications for just R15m ($3.3m).

Mr James Cross, deputy governor of the bank, had estimated R3bn-R5bn could flow out following the concession, which allows South Africans to hold up to R200,000 in foreign assets.

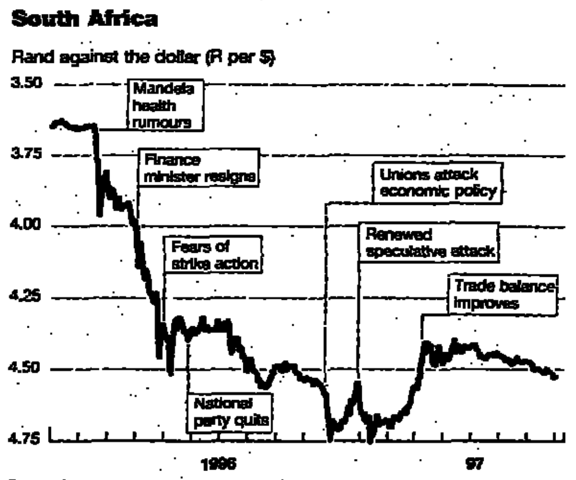
"Should demand for dollars stabilise at R15m a day for the next month, we would only lose R300m, which would not hurt at all," he said. Mr Trevor Manuel, finance minister, was also feeling no pain. The loosening of exchange controls was a further sign of mounting confidence in the economy, he said.

He remains committed to eventual abolition of controls and, provided reserves are not used up in defending the rand, further easing can be expected later in the year. Mr Chris Stals, governor of the central bank, said last week he had a total of R38bn available in reserves and unused credit lines.

The modest loss of currency was nothing to the loss of more than 4m people. Mr Mark Orkin, head of the statistical service, described the census results as "a major surprise".

South Africa

Rand against the dollar (R per $)



Source: Datastream

He said the government had lacked reliable demographic information during the past 20 years of apartheid rule, particularly after the four homeland states of Transkei, Bophuthatswana, Venda and Ciskei were hived off from the rest of the country.

This had led to many incorrect assumptions by white officials about blacks, especially with regard to their fertility and death rates. Taken together, the two developments should bode well for the economy. Officials and economists were still struggling yesterday to understand the full implications of both.

"The most important thing seems to be that the new population figure also indicates an annual birth rate of 1.9 per cent, which is enormously encouraging," said Mr Nick Barnardt, chief economist at BoE NatWest Securities. "At one point in the 1980s we were over 3 per cent, it then dropped progressively to 2.2 per cent, and this further fall would represent a major breakthrough."

Individual ministers will also be looking closely at the final figures to assess how they might affect budgets for the provision of basic services such as water, health and electricity.

The effect could be even greater on provincial administrations, where the new population figures will decide how much they can expect to receive each year from central government. Life expectancy is also rising, putting greater weight on pensions provision.

There will be other benefits for South Africa's international image. The long argument over unemployment levels may well be resolved in favour of those who dispute the figure, often given by ministers, of more than 30 per cent.

The loss of 4m people could bring unemployment down to a less frightening 25 per cent. The lower population figure will also push up the country's per capita gross domestic product a few notches to a rather more respectable place in world league tables.

But it will be well into next year before the more detailed findings of the census will be revealed, by which time today's optimism and the resolve of the government to abolish remaining exchange controls is likely to have been further tested.

Mr Cross says the next step could be an increase in the R30m ceiling for foreign companies to invest abroad, and rather more than R200,000 for individuals. But it will take greater courage to allow institutional investors managing funds of over R500bn to move a progressively greater proportion overseas.

The government's hope remains that this step-by-step approach will eventually create a situation when the country will wake one morning to find all controls have disappeared, rather in the same way as the 4m people.

It must also hope the exercise is as cost-effective. At R400m, the census has already proved remarkable value for money.

NEWS: WORLD TRADE

Whiff of competition for tobacco industry

James Harding reports from Yuxi on Chinese cigarette makers' fears that the world's biggest market could be opened up to imports

In the small town of Yuxi in south-western China, Mr Zi Guorui, president of Yuxi Hongta Tobacco, has been watching warily as the US tobacco industry settled with the anti-smoking lobby.

"US companies have started to target developing countries," he says. "China still does not approve the import of foreign cigarettes, but 1m cases are smuggled in anyway each year. They are already a potential competitive threat... this [settlement] will increase US pressure. It will have a long-term effect on us too."

Mr Zi expects the recent deal requiring US cigarette makers to pay $368bn to protect the industry from future lawsuits, and the declining domestic market will sharpen American ambitions in China, the world's largest community of smokers. More than 300m Chinese people smoke about 1,900bn cigarettes a year, roughly a third of the world total, and the numbers are rising.

For the time being, China is formally closed to foreign tobacco companies, but growing pressure from the US and China's likely accession to the World Trade Organisation could open the market, making it "hard for the Chinese tobacco industry to make a living," he says.

If any Chinese company is up to the US challenge, it should be Hongta.

The company rolled 111bn cigarettes last year earning Yn19.3bn ($2.3bn) in tax and profits, making it China's most profitable tobacco company and one of the most successful state-owned enterprises.

The Yuxi factory, the largest in Asia, produces the Hongtashan cigarette, the best known local brand in China.

Foreign competition is only one of the threats to Hongta's position.

Rising production costs, downward price pressure, competition from imitations and growing concern over health risks pose tough challenges to a company half-sheltered, half-shackled by state ownership.

In that testing climate, Mr Zi has yet to prove himself.

It was not he, but Mr Chu Shijian, whose uncompromising style and dogged investment in the highest technology machinery lifted the Yuxi factory from the ranks of inconsequential Chinese cigarette-makers in 1979 to become a world-class tobacco company by 1996.

But last December, Mr Chu was arrested and accused of corruption. The man who was China's "National Model Worker" in 1989 is today under house arrest in Yuxi. Officials are investigating reports that Mr Chu authorised the free delivery of commercial quantities of cigarettes to government officials and high-ranking contacts.

After several years of strong growth, Hongta is expected to report tax and profits of Yn19.5bn in 1997, little changed from 1996, reflecting rising costs of production and falling prices.

The Yuxi factory, producing 2.2m cases of cigarettes a year, has the capacity to increase output to 2.5m cases, but is prevented from doing so by the China National Tobacco Corporation, the state monopoly in Beijing that manages the tobacco industry.

A packet of Red Pagoda Mountain costs Yn10 ($1.20), down from Yn13 just over a year ago, a reaction to oversupply in the market. Mr Zi estimates that 60 per cent of the hundreds of small and medium-sized cigarette makers in China are losing money. Hongta has had to cut margins to build market share, he says.

It is possible to pick up a packet for Yn2-Yn5, but these are almost certainly fakes, which the company believes are manufactured in the Philippines or Taiwan and then smuggled into China.

One element of the US experience that does not trouble Mr Zi is the prospect of liabilities imposed by state lawyers as punitive damages for smoking-related illnesses. "Our factories are owned by the government. If they fine us, they fine themselves," he laughs.

However, concerns about the health hazards of smoking are filtering through to China. Hongta has had to spend more than Yn100m to extend the filter on its cigarettes in line with a government health directive, a change which smokers say has altered the flavour of a Red Pagoda Mountain. Four provinces and 70 cities have already banned smoking in public places.

The global trend to give up smoking is forcing Hongta to diversify, but not strictly along commercial lines. Along with automotive and banking investments, the company has committed over Yn12bn to two local power projects and Yn300m in a highway, answering the government's call for capital investment in provincial infrastructure projects.

The official flavour of its investments reflects the mutual reliance of the state and the tobacco industry.

More than 40 per cent of revenues in the province of Yunnan come from the Yuxi factory alone. And, in the battle against foreign cigarettes, Hongta, rightly or wrongly, is counting on the state to repay the favour.

Mr Zi says he is not too worried: "Beijing is thinking a lot about this problem. They know that if China joins the WTO, then the restrictions on imports of commodities and the tax on imported commodities will come down. That might make it impossible for Hongta to make a living. If Hongta could not make a living, the whole industry would go broke. They could not let that happen."

More than 300m Chinese people smoke about 1,900bn cigarettes a year, roughly a third of the world total

CHINA'S SMOKERS

	1984	1996
%age over 15 who smoke	33.9	37.6
Average age started smoking	23	20
Average daily consumption*	13	15
	men	women
%age of smokers by sex	67	4

Source: China Academy of Preventative Medical Sciences and the China Smoking and Health Association, based on a survey of 130,000 people.
*number of cigarettes.

WORLD TRADE NEWS DIGEST

Big Macs face Indonesia curb

Indonesia is to enforce new laws aimed at protecting small shopkeepers by restricting the expansion of large retailers such as fast food chains and supermarkets. Under the new regulations, large retailers and franchises will only be allowed to establish new outlets in provincial capitals and will be excluded from certain sites, effectively banning large retailers from some of the country's high-growth areas.

The restrictions have sparked concern among Indonesians holding foreign franchises. Mr Bambang N Rachmadi, president director of McDonalds in Indonesia, protested this week that the new regulations discriminate against foreign franchisers.

However, officials say the move was necessary to protect small retailers under threat from the growing number of foreign franchise holders. Some observers have blamed recent social unrest on the growing disparity between rich and poor.

"Local franchisers are discriminated against by shopping malls, which prefer to allocate their strategic spaces to foreign franchisers such as McDonalds, Kentucky Fried Chicken and Pizza Hut," Mr Nandang Sukandar, chairman of the Indonesian Franchisers' Association, said last week. *Manuela Saragosa, Jakarta*

Asean to study energy links

The Association of South-east Asian Nations (Asean) is to conduct feasibility studies into plans for a huge electricity grid and natural gas pipeline system connecting member countries across the region. Mr Francisco Viray, Phillipines energy secretary, said Asean was considering integrating a number of cross-border energy schemes already under way or being considered in the region.

These included plans to connect supplies in Thailand, Vietnam, Laos and Cambodia, another project involving Brunei, Indonesia, Malaysia and southern Phillipines, as well as separate proposals to link Indonesia and Malaysia to Thailand and Singapore.

An $11bn pipeline could link gas fields in Brunei, Malaysia, Thailand and the Phillipines to povide natural gas to these countries and to Singapore, said Mr Viray. He said Australia would be funding a separate study on connecting the electricity grids of member countries. *Andrew Taylor, Construction Correspondent*

Prop for Chinese houses

Germany has pledged commercial and technical help to develop China's housing market. A memorandum covering the German assistance was signed by Mr Klaus Töpfer, German construction minister and Mr Hou Jie, his Chinese counterpart.

The rapidly expanding Chinese economy desperately needs more homes. Germany is expected to provide help in the key areas of building materials supply, urban traffic planning, environmental protection and the development of mortgage lending systems. *Andrew Taylor*

■ British building materials supplier RMC Group plans to invest DM80m-DM100m in a Croatian cement works to develop production in three plants, one of which was closed, and remove bottlenecks. RMC hopes to expand construction materials business in the region, largely devastated by the 1991-95 conflict in the former Yugoslavia. *Reuter, Zagreb*

■ Ericsson Telefon has signed a $110m GSM expansion contract with the Heilongjiang Posts and Telecommunications Administration in China. Ericsson will introduce micro-radio base stations to enable rapid and smooth deployment of high-capacity network. In addition, base stations will pave the way for future introduction of personal communication. *AFX-Asia*

Brussels still worried by McDonnell merger

By Emma Tucker in Brussels

The decision by US regulators to clear the $13.3bn merger of Boeing and McDonnell Douglas has not alleviated European Commission concerns about the deal, EU officials indicated yesterday.

The Commission is still examining Boeing's proposed remedies to the tie-up, presented earlier this week, but they are understood to be too weak to clear up Brussels' doubts.

Mr Karel Van Miert, competition commissioner, insists only substantial alterations meeting his concerns will result in Brussels' regulatory approval. "The decision by the FTC (Federal Trade Commission) in no way changes the serious doubts of the European Commission," an official stated.

On Tuesday, the FTC nodded through the merger, the US's tenth largest, with no conditions, after concluding McDonnell Douglas had ceased to be competitive in the international commercial jet market.

If the two sides fail to reach agreement, it will not be the first time the US and EU have disagreed on a merger case. The Commission says the merging companies would have to respect the negative decision. Boeing can offer alterations to the deal right up until the Commission's final decision, expected on July 23.

Mr Van Miert is worried that even if McDonnell Douglas is no longer a viable competitor on its own, its takeover by Boeing would strengthen Boeing's already dominant position in the market for large commercial aircraft.

The Commission has focused on the fact McDonnell Douglas has a 24 per cent share of the aircraft at present in service and that Boeing would thus gain access to its former rival's service contracts and spare parts market.

Mr Van Miert, commissioner overseeing the dossier in Brussels, is likely to have drawn some comfort from the FTC decision. Four of the five FTC commissioners found a series of sole-supplier agreements Boeing has drawn up with three US airlines "potentially troubling".

The Commission believes the 20-year deals would seriously squeeze the market for jet aircraft.

The increase in Boeing's defence and space business resulting from the merger would strengthen Boeing's dominant position in commercial aircraft, because of the access it would gain to technology developed by publicly funded defence R&D.

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Central bankers are relaxed over baht float

By Justin Marozzi in Manila, Manuela Saragosa in Jakarta and agencies

Thailand's surprise move to float the baht sent shock waves around the region yesterday.

Central bankers from neighbouring countries said they had been warned by Thailand of the impending move and were quite relaxed about it, but the Philippine central bank was forced to jack up interest rates. Both it and Malaysia's Bank Negara intervened to support their currencies and Indonesia's rupiah came under pressure early yesterday morning.

The Philippine peso came under sustained attack as foreign exchange trading hit record levels and the central bank raised the overnight interest rate from 15 per cent to 24 per cent.

The run on the peso was the third in less than two months but by the end of trading the dollar had gained just 0.2 centavos to end at 26.378 pesos. Total volume reached a record $1.05bn – compared with $205m on Tuesday – of which the central bank accounted for more than a half. The bank was a net seller of about $138m. The attack on the peso also brought jitters to the stock market, which shed 50.65 points or 1.7 per cent to close at 2,764.89.

"There are lots of scared people out there, there's a lot of smoke, but at the end of the day there's not all that much happening," said Mr Patrick Dewilde, of Citibank, one of the largest foreign exchange dealers in Manila.

"The central bank has now sent a strong signal to traders saying don't play with me, I'm serious. If you want to play, do it somewhere else."

The central bank raised the key overnight interest rate twice yesterday from 15 per cent to 20 per cent and again to 24 per cent, surpassing a two-year high of 20 per cent in May when it defended the peso against another spill-over attack from Thailand.

But with the three-month treasury bill, the benchmark for corporate borrowers, trading at between 10.75 and 11 per cent yesterday, analysts said the central bank move would be unlikely to feed through to harm companies.

Mr Roberto de Ocampo, finance secretary, said the effect from the Thai baht collapse was purely temporary. "I am not worried in any way about any fund outflow even if we have seen a large outflow [yesterday] because this is a short-term trend that will have no lasting effect on our economy," he said.

In Kuala Lumpur, the Bank Negara intervened in the foreign exchange market using its own name for the first time in many years. The central bank usually uses a broker or Malaysia's biggest banks for its market operations, dealers said.

The actual size of the intervention was not known but dealers believed the amount of dollars sold by Bank Negara was small. Bank Negara kept the ringgit from breaking 2.525, dealers said.

"Bank Negara will continue to support the ringgit around 2.525. I think this time around, the central banks (in the region) will be able to defend their currencies," said Mr Dilip Ratha, economist with W.I. Carr in Singapore.

Indonesia's currency, the rupiah, shrugged off Thailand's effective devaluation of the baht with economists pointing to strong fundamentals in the Indonesian economy as evidence that there are few parallels to be drawn between the two economies.

The rupiah weakened to 2,445 against the dollar in morning trade yesterday but soon recovered to opening levels around 2,433, close to the low end of its trading band against the dollar, indicating its strength. On the surface, both Thailand and Indonesia have seen a rapid build-up in private external debt, a widening current account deficit and increasing exposure by banks to the property sector. But economists say Indonesia's case is more manageable.

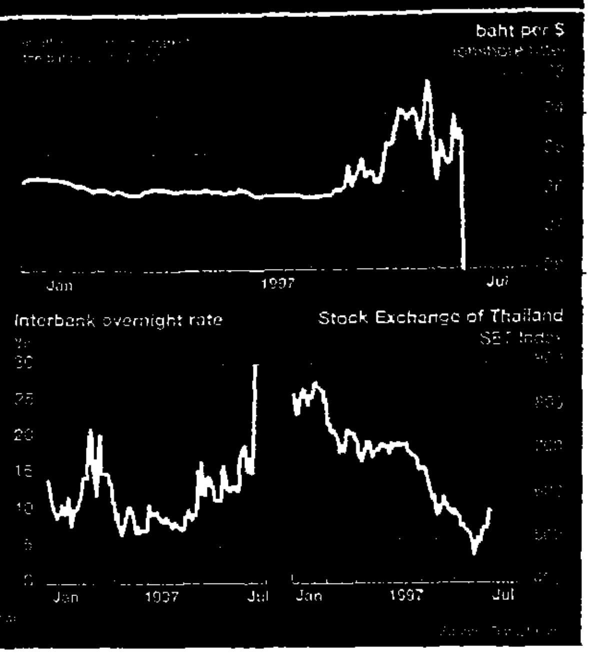
In Japan, company officials and analysts said yesterday that the effective devaluation of the baht would hurt Japanese companies' operations in the country by inflating the burdens of their dollar- and yen-based debts, while boosting the costs of the parts and components they import from Japan.

Japan by far has the biggest stake among foreign countries that have investments in Thailand. According to data by the quasi-governmental Japan External Trade Organisation, or Jetro, Japanese companies accounted for 280 of last year's 548 new investment projects in Thailand. In value terms, Japanese companies' investments totalled Bt161.4bn ($5.6bn) last year, representing some 45 per cent of the new investment money.

Traders said institutional investors were likely to cut their exposure to Thailand, but the impact of the "flight to quality" factor may be muted in the longer term.

Bangkok banking on unorthodox

Thailand: baht floated to ease interest rates



Bangkok's decision to float the baht must have an unorthodox ring to the mass of economists who believe devaluations are designed to help close a country's trade gap by boosting exports and squeezing domestic demand.

The Bank of Thailand's main purpose appears to be almost diametrically opposed to this received wisdom.

The bank admitted yesterday it hoped the move would pave the way for an eventual reduction in interest rates, which bankers say is badly needed to prop up an economy so weak that even beer sales are falling.

A jump in Bangkok share prices by nearly 8 per cent by the close reflected hopes that Thailand may be about to burst out of the strait-jacket of high interest rates needed to prop up the currency. But in the short term the baht's effective devaluation of about 17 per cent against the dollar will create as many problems as it solves.

Heavy dollar borrowing by Thai companies has made devaluation a risky option. These loans have suddenly become expensive to repay, which could hit corporate balance sheets and add to the country's sickly financial sector's troubles.

"A lot of companies are going to suffer. Quite a few banks are going to suffer, but it's better to get the currency uncertainty out of the way," said Mr Graham Catterwell of Deutsche Morgan Grenfell in Bangkok.

Thanks to its high rate of investment, too much of which now turns out to have been in the unproductive property sector, Thailand has a large balance of payments deficit. But most economists agree the exchange rate itself was not overvalued and it did not need a devaluation to boost exports.

Thai exports this year have been recovering faster than those of Malaysia. A lower exchange rate will do little to boost Thailand's increasingly dynamic high-technology exports, as many of these require a high levels of imported inputs.

Instead the government's long-standing dilemma has been how to find a way of safely lowering interest rates to ease banking sector problems. The foreign exchange markets knew this could not be done without letting the exchange rate slide and were waiting to pounce.

"The Thai authorities were caught between the devil and the deep blue sea," said Mr Michael Taylor, regional economist at W.I. Carr in Hong Kong. "No devaluation was a policy of self-strangulation."

'The Thai authorities were caught between the devil and the deep blue sea'

Now comes the sensitive task of managing the aftermath.

The immediate consequence of the float was not the desired fall in interest rates but a rise, as the Bank of Thailand lifted its reference lending rate by two percentage points to 12.5 per cent.

Mr Catterwell believes the currency move is still a prelude to a permanent reduction in interest rates as the baht will recover quite quickly once speculative pressure dies away. The Bank of Thailand and Mr Thanong Bidaya, the newly appointed finance minister, were simply facing up to reality by letting the currency fall, he said.

A sign that Mr Thanong had shaken off the inertia of Mr Amnuay Viravan, his predecessor who resigned abruptly two weeks ago, came last week when the authorities closed a number of bankrupt finance companies.

Mr Catterwell said the authorities must also have recognised that the capital controls imposed when the baht came under intense pressure in May could not become a permanent defence against speculation.

Though they remained in place yesterday, the currency float should enable them to be lifted in due course.

Much depends on how nimbly the authorities move to soften the impact of the devaluation on corporate balance sheets.

This could be done by allowing companies to amortise foreign exchange valuation losses over a long period and by permitting them to offset such losses against tax, Mr Catterwell said.

In contrast, Mr Neil Saker, regional economist of Societe-Generale-Crosby in Singapore, remains sceptical. There was a risk of financial sector meltdown, he said, as more corporate problems hit a banking system already reeling under a bad debt burden estimated at as much as Bt800bn ($30bn).

Interest rates might have to stay high. Financial markets would impose a risk premium because of Thailand's weak coalition and its shaky record in managing the economy. Inflationary pressures, which have been low hitherto, would increase as the currency fell.

"You're going to see the real economy beginning to slide down," Mr Saker said. "Corporate finances will be hit hard because currency depreciation will destroy balance sheets." As the squeeze continued into the second half, growth this year could fall as low as 1 per cent, he added, unheard of for an Asian "tiger" country.

Such gloomy prospects must strike fear into neighbouring governments already struggling with a problem of excess manufacturing capacity.

While the Philippines now looks to be in the front line for speculative attack, many bankers believe Malaysia, which has been struggling to differentiate its economic record from that of Thailand, will also face difficulties.

It has to absorb a property glut and its economy is one of the region's most heavily geared.

Thailand's crunch may thus be the first of many as Asian economies are forced to come to terms with over-investment and over-capacity.

The much vaunted alliance of regional central banks, assembled over the past year to protect against currency speculation, may soon be put to the test.

Peter Montagnon

Chinese share prices tumble after handover

By James Harding in Shanghai

China's stock markets tumbled yesterday, the first day of trading since the return of Hong Kong to Chinese sovereignty.

Investors cashed in profits after months of pre-handover positive sentiment, as well as widespread expectations that a flood of new issues will depress prices, drove down the indices on both the Shanghai and Shenzhen exchanges.

The hard-currency B index in Shanghai fell 3.42 per cent to close at 78.69 points in thin trade and the A share index closed 4.11 per cent lower at 1,253.01 points. Shenzhen's A shares slipped 4.07 per cent, driven down by heavy losses in Shenzhen Development Bank after reports that it might be given a lighter weighting in the market's main sub-index. Trading in Shenzhen B shares, along with the Hong Kong market, reopens today.

China's mainland markets are divided into A shares, reserved exclusively for Chinese citizens and denominated in local currency, and B shares, restricted, in theory, to foreign investors and denominated in US dollars or HK dollars.

The run-up to the handover had buoyed prices on mainland markets in recent months and with the return of Hong Kong now realised, that market support has evaporated, said an analyst for a Shanghai brokerage. "All of the buying in the last two months was premised on the return of Hong Kong."

Traders on the Shanghai exchange said there were no immediate incentives to buy shares, and they were waiting instead for interim results and the prospect of a rash of new issues to determine market sentiment.

Some analysts took comfort from yesterday's slide in share prices, arguing that the fall gave the Chinese government room for an interest rate cut.

In the last six months, state regulators have intervened repeatedly in the mainland markets trying to cool what they see as overheating markets. A number of traders have interpreted the intervention as laying the ground for a forthcoming cut in interest rates.

World stock markets, Page 34

Schoolchildren treated after inhaling fumes

Japanese battle biggest oil slick

By Bethan Hutton in Tokyo

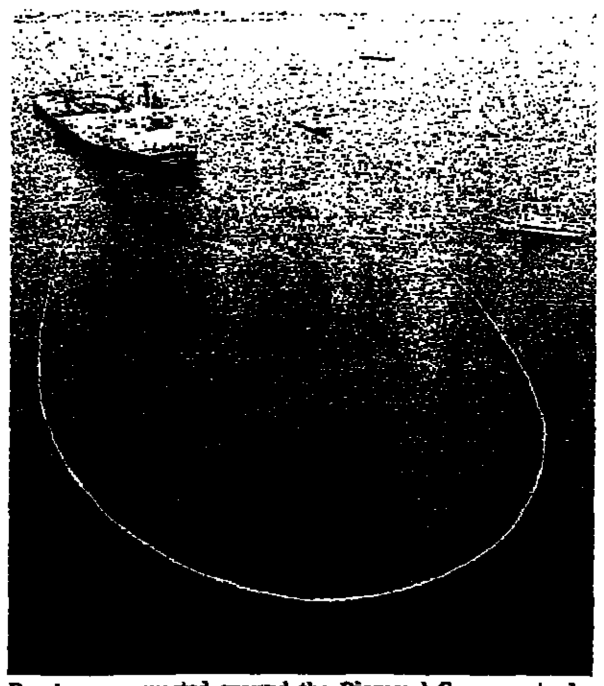
Emergency operations were under way last night to contain Japan's largest oil spill, which left a slick covering 7km of Tokyo Bay, near the city of Yokohama.

The 15,000 kilolitres of oil leaked from the Diamond Grace, a Japanese-owned, Panamanian-registered tanker which appeared to have run aground in shallow water. The oil flow was quickly stemmed as ships converged on the area to lay barriers and spray chemicals on the crude.

Officials from Japan's Maritime Safety Agency were yesterday questioning the Japanese captain of the ship. The agency is also believed to be investigating whether structural problems contributed to the accident.

Although the ship is less than three years old, it has a single hull. Most tankers are now built with double hulls to reduce the risk of oil spills after minor accidents.

Warm weather meant large amounts of oil vaporised rapidly, and the fumes drifted over residential areas. Several schoolchildren were treated after inhaling fumes.



Barriers are erected around the Diamond Grace yesterday to limit the damage from the crude oil spill *Reuter*

The Diamond Grace is co-owned by subsidiaries of Mitsubishi Oil and Nippon Yusen, one of Japan's leading shipping companies, with crew from Japan and the Philippines.

The environmental impact of the spill is unclear. The land around Tokyo Bay is heavily industrialised but it is also densely populated. Local fishermen are concerned about fish and shellfish in the bay.

The accident is the second big oil spill in Japan this year.

On January 2 a Russian tanker broke up in the sea off the western coast of Japan, releasing 6,000 kilolitres of oil.

ASIA-PACIFIC NEWS DIGEST

Taiwan eases listings curbs

Taiwanese companies may apply to list shares on domestic and foreign stock exchanges simultaneously under a liberalisation measure that came into effect yesterday. An official at the Securities and Exchange Commission, the capital markets watchdog, said the change was part of ongoing financial market reforms being implemented under a cabinet policy to liberalise Taiwan's financial markets. Foreign companies are now permitted to list shares on the Taiwan stock market.

However, Taiwan companies will not be allowed to list shares on stock exchanges in communist China, and vice-versa.

Officials said the reform was intended to facilitate stock trading across exchanges to better integrate Taiwan's once-isolated exchange into the international financial system. Securities analysts said Taiwanese companies might seek overseas listings to lower their funding costs.

Since 1992 foreign companies with shares listed in overseas markets have been allowed to tap into Taiwan's market through issuance of depositary receipts, but none has yet applied to do so. *Laura Tyson, Taipei*

Taipei deputies in punch-up

Taiwan's constitutional reform process degenerated into chaos yesterday as National Assembly deputies punched and kicked each other, leaving two injured.

A deputy from the fledgling New Party was beaten during the fracas and blood streamed from the back of his head. Another of the party's deputies was taken unconscious to hospital.

The National Assembly, an increasingly marginalised elective body whose sole function is to revise the constitution, has been reviewing a package of amendments proposed by the ruling Nationalist party, which dominates membership. Negotiations over the proposals are continuing. *Reuter, Taipei*

Canberra wins approval

Moody's, the US ratings agency, has expressed cautious approval for the economic management of the Australian government under Mr John Howard, the prime minister. The agency yesterday held out the prospect of an upgrading of Australia's Aa2 sovereign debt rating, downgraded in 1989, but remained critical of some aspects of the economy.

It cited a strengthened fiscal policy framework and prudent monetary stance, but said an ultimate upgrade would depend on Australia's ability further to reduce its reliance on foreign savings.

"Economic growth and fiscal tightening measures in the last few years have had a positive influence on the underlying budgetary position of the government sector," the agency said.

The underlying deficit is projected to be less than 1 per cent of gross domestic product this financial year. The federal and state governments are also improving financial flexibility by using proceeds from privatisation initiatives to reduce debt burdens and lower debt servicing costs.

Moody's said the fiscal improvement had assisted national savings, but "the country still faces a sizeable gap between its own sources of savings and current levels of investment". *Bruce Jacques, Sydney*

S Korean sentiment picks up

South Korean businesses expect the economy to remain depressed in July, but sentiment has improved compared with June and a year ago, a corporate survey reported yesterday. The Business Survey Index (BSI) provided by a powerful lobby group representing the nation's biggest conglomerates, or *chaebol*, stood at 87 for July against 77 for the same month a year earlier and 80 for June this year. A BSI figure higher than 100 means businesses' outlook is bullish. Anything less than 100 means their outlook is bearish. *Reuter, Seoul*

Clinton changes ground on tax cut

By Gerard Baker
in Washington

The protracted political chess match that is the US government's budget process reached its endgame this week, when President Bill Clinton presented his response to bills passed by Congress at the end of last week.

Though the rhetoric continues to exude mutual hostility, the indications are that the White House and the Republican leadership are at last close to a final budget deal – one that will not only plausibly promise to balance the federal budget deficit by 2002, but a deal that will contain the largest tax cut Americans have enjoyed in 16 years.

The president's new plan should improve the prospects for agreement, Mr Robert Rubin, the Treasury secretary, said on Monday, because "it recognised the views of others".

That was a tactful way of acknowledging a significant compromise by Mr Clinton that marks another large shift by his administration towards the Republican party's political agenda.

Having for years denounced Republicans' efforts to cut taxes on capital gains from investments in stocks and real estate, the president indicated with his new proposals on Monday that he was at last prepared to accept a modified version of the plan.

A capital gains tax cut has, since the days of President Ronald Reagan, been the ark of the Republicans' economic policy covenant, and one of the principal lines of cleavage in American politics.

Conservatives have argued the measure would increase savings, and encourage investment in American businesses in a way that would ultimately, if not immediately, benefit the whole economy.

Democrats have always been suspicious of these "trickle-down" arguments, believing that a capital gains tax cut represents merely a bonanza for the wealthiest Americans, with little or no gain for the rest of the country.

When the process began last February with the publication of the president's budget proposals, Mr Clinton seemed as reluctant as ever to grant a capital gains tax cut. Instead, he proposed a range of measures aimed at middle-income families, including the elimination of tax from gains on the sale of a house up to a maximum value of $500,000.

Pressing ahead with their own legislation in Congress, the Republicans produced bills in the House and Senate which differed slightly in the details but both of which proposed a cut in capital gains tax that would reduce the rates of tax paid by all taxpayers and would cost at least $25bn over 10 years. Throughout the congressional deliberations, administration officials condemned the proposed tax cuts.

But on Monday, announcing his response to the bills , Mr Clinton signalled for the first time that he would go along with the main thrust of a reduction in the tax.

The main aim of his revised plans was the same tax cut for middle-income families he had targeted all along.

Mr Clinton's capital gains tax cut proposal did seek to focus more of the benefit on those earning average salaries. Democrats pointed out that the president's plan would offer twice as much relief to those earning between $15,000 and $80,000 per year as the House and Senate proposals.

But administration officials did not try to deny that the benefits would fall disproportionately on the better-off.

In fact, in terms of the total value of the tax cut, according to the White House's own calculations, the wealthiest 20 per cent of US taxpayers will receive almost as much of Mr Clinton's tax cut as the bottom 60 per cent.

"We're very pleased that President Clinton has taken a giant step closer towards our tax cut plan," said Rep Bill Paxon, a prominent conservative Republican.

Democrats were less happy. "He's given up ground before we sit down," said Mr Charles Rangel, the leading Democrat on the House Ways and Means committee.

When the Congress returns from its Independence Day holiday break next week, Republican leaders will first have the task of reconciling the different House and Senate versions of the budget bills, a process that should prove relatively simple.

They will then turn to the president's new proposals, aiming to reach final agreement with the White House by early August. Mr Clinton's critical volte-face on capital gains tax brings the prospect of an agreement much closer.

US new factory orders in May fell 0.7 per cent to a seasonally adjusted $323.32bn, the second decline in the past three months, agencies report from Washington.

Figures from the Commerce Department showed the decline in May compared with a revised increase of 1.4 per cent in April to an adjusted $325.54bn and an unrevised 1.7 per cent fall in March to $321.15bn.

Orders for durable goods in May also fell 0.7 per cent to an adjusted $175.86bn, after rising 1.8 per cent in April to $177.11bn.

Weak demand for new cars and aircraft helped push down the value of new orders. Shipments and order backlogs also weakened from April.

The report added to signs factory business was tapering off in the second quarter, forecast by analysts on the basis of weaker retail sales.

Pierre Trudeau (left), Jean Chrétien (centre) and Brian Mulroney: leaders all, Québécois all, reflecting political but not economic clout

A region's growing economic muscle is being felt in Ottawa

Canada's centre shifts to west

Nothing created more commotion during Canada's recent election campaign than an aggressive TV ad suggesting politicians from Quebec had too much influence in national affairs.

The advertisement was screened by the Reform Party, formed in the late 1980s with the slogan "The West Wants In". Reform emerged from the election with 60 seats, making it the biggest opposition party in parliament.

Many Canadians, especially in Ontario, still feel uncomfortable with Reform's populist, right-of-centre platform that includes greater accountability by members of parliament, abolition of gun controls and an emphasis on "family values".

But Reform is expected to be taken seriously as a voice for a region that has increasingly chafed at the perceived disparity between its growing economic muscle and its political influence on the federal government in Ottawa.

Mr Jim Gray, a prominent Alberta oil executive and chairman of the Canada West Foundation, a Calgary-based think-tank, says: "The centre has acted in a somewhat cavalier fashion towards the regions. I think that's over".

Ottawa's attention has long been consumed by the separatist threat in Quebec. The French-speaking province's interests have played a disproportionate role in shaping issues from farm trade policy to big defence contracts.

Official bilingualism has made it more likely the prime minister and senior cabinet ministers will come from Quebec than from provinces such as British Columbia and Alberta, where French is seldom heard. Mr Pierre Trudeau, Mr Brian Mulroney and Mr Jean Chrétien, who have led Canada for 28 of the past 30 years, are all Québécois.

Mr Conrad Winn, president of Compass Research, a polling company, says the "crowd" in Ottawa remains blinkered to western Canadian concerns.

Much of the media, including the Toronto-based Canadian Broadcasting Corporation, has underestimated "the power and the frustration of the west," Mr Winn adds. He says the Reform party still has an image in central Canada as "people you couldn't invite home".

Meanwhile, Canada's economic centre of gravity has shifted steadily westward. A recent Statistics Canada study shows only three of 10 provinces have gained population in the past three decades. Two of the three, Alberta and British Columbia, are in western Canada.

BC's population grew 2.7 per cent a year from 1991-96, against 1.3 per cent for Canada as a whole.

> 'The centre has acted in a cavalier fashion. I think that's over'

Alberta's economy has grown at a healthy rate of just under 4 per cent a year from 1992-96, against the national average of 2.3 per cent. Royal Bank of Canada predicts Alberta's economy will grow 4.1 per cent this year and 4.2 per cent in 1998, the highest among the 10 provinces.

House prices in Vancouver are higher than Toronto, reflecting the flood of migrants from other parts of Canada as well as the Far East, especially Hong Kong.

Alberta has the lowest tax rates in Canada and is the only province without a retail sales tax. Together with neighbouring Saskatchewan, it has led the way in fiscal discipline. The two provinces were the first to balance their budgets.

Calgary now boasts more corporate head offices than Montreal. Among those that have recently moved is Canadian Pacific Railway, one of Canada's corporate icons.

"There's a sense of optimism here, a sense of anticipation and growth. It's a stimulating place for business," says Ian LaCouvée, a CPR official in Calgary. Also, the west's growing economic clout has begun to find an echo in national politics.

The government was quick last year to balance an C$87m ($63m) subsidy to Bombardier, the Montreal-based rail and aerospace group, with a similar (though smaller) advance to Vancouver's Ballard Power Systems, which makes fuel cells for motor vehicles.

British Columbia succeeded in persuading Mr Chrétien two years ago to recognise it as a separate "region" for the purpose of amending the constitution. Mr Chrétien's policy towards Quebec has incorporated some "tough love" elements favoured by many westerners, such as rejection of a "partnership of equals" between an independent Quebec and English-speaking Canada.

Mr Gray says "there's a self-confidence that comes with [economic] strength. This has introduced a new chemistry into the national unity mix." He predicts a revival of Reform's proposal for a "Triple-E" (elected, equal and effective) senate along the lines of the upper house of the US Congress.

Talk of a western separatist movement occasionally surfaces. The idea was floated in the early 1990s for Alberta and BC, plus north-west US states, to form a loose economic and political region called Cascadia. But the separatist seed has so far fallen on stony ground. "We are true Canadians," Mr Gray says. "We believe in the country."

Westerners' growing self-confidence is more likely to be directed for now at getting Ottawa's attention than trying to go it alone.

Bernard Simon, Scott Morrison

Clinton wins applause for hands-off internet policy

Cyberspace commerce is expected to grow to $25bn per annum by the year 2000, report **Paul Taylor and Louise Kehoe**

If there are any critics of President Bill Clinton's "hands off" policy toward the internet, their voices were drowned this week by the praise and applause of US computer, software and other business groups.

At a White House gathering on Tuesday packed with high-tech industry executives, President Clinton affirmed the administration's stance. There should be no new taxes in cyberspace, he said, and minimal government regulation.

In a new policy paper, "A framework for global electronic commerce," the administration endorsed the principle of "self-regulation" for the internet. "For electronic commerce to flourish, the private sector must lead," the report said. "Unnecessary regulation could cripple the growth and diversity of the internet."

It was just what the industrialists, intent upon creating a global trading network on the internet, wanted to hear.

"This is an important step on the part of the administration to ensuring the unfettered growth of commerce over the internet," said Mr William Archey, president and chief executive of the American Electronics Association, the largest US high-tech trade group.

Commerce over the internet is projected to grow from about $1bn last year to up to $25bn by 2000. "In many ways, electronic commerce is like the Wild West for the global economy," President Clinton said. "Our task is to make sure that it is a safe and stable terrain for those who wish to trade on it."

> Persuading foreign countries to keep it a tariff free zone may not be easy

The Clinton administration's internet policy represented "a hyperlink to the future of our economy," said Mr Carl Pascarella, president and chief executive of Visa USA, the credit card group. Visa is committed to making electronic commerce safe, easy, economical and accessible, said Mr Pascarella.

Internet privacy advocates were also pleased by the administration's stance. In its policy document, the administration said consumers should be told what information was gathered about them by web site operators and how that information was used. Consumers should also have some redress against misuse or inappropriate disclosure of personal information.

The only aspect of the report computer and software industry groups were unhappy with was the administration's insistence that export controls on encryption software – used to protect sensitive transmissions on the internet – remain in place.

The most contentious element of the administration policy may, however, be its stance on taxation of the internet. President Clinton said the internet should be a tariff free zone with no new taxes.

Persuading foreign governments to support the "tariff free" proposal may prove difficult. The administration report argues that the global internet traverses national borders in ways that cannot be controlled, making it difficult to apply import tariffs.

In Europe the hands-off US approach was broadly welcomed by both industry and the European Commission.

European internet service providers in particular were pleased with the free market tone of the Clinton paper. "It is clear that the Clinton administration has got its head around the internet and we welcome it," said Mr David Barratt, UUNet's marketing director.

Mr Barratt, who describes the internet as "the largest free trade zone in the world", said it now appeared the US, the European Union and the British government were all "heading in the same direction."

In Brussels the Commission emphasised that electronic commerce had been the subject of several EU initiatives in recent months. In April the Commission presented its own framework for future action on electronic commerce which also embraced a *laissez-faire* approach to the internet while emphasising there must be "a compatible and coherent regulatory framework at the global level".

Next week ministers from member states and neighbouring countries will meet in Bonn at a conference on global information networks organised by Germany and Mr Martin Bangemann, European commissioner for industry.

Publishers set up internet 'megasite', Page 17

Argentina sell-off appeals fail

By Ken Warn
in Buenos Aires

Two consortia claiming they were unjustly excluded from bidding in the privatisation of Argentina's postal service have had their appeals rejected by the postal privatisation commission, despite forceful lobbying.

The two consortia, one led by international investment bank ING Barings and the other by the local industrial group Roggio, were yesterday weighing whether to take their case to the courts, a move which could delay the sale, due to be completed by September 1.

Both were excluded on grounds their technical advice did not come from a member country of the Universal Postal Union, which groups the world's main postal operators, as stipulated in tender documents.

ING Barings was advised by Nepostal, the consultancy arm of KPN, the Dutch postal operator, while Roggio was advised by Canada Post System Management, a subsidiary of Canada Post. The privatisation commission ruled this week the two advisers were only linked with UPU members, and were not members themselves.

The UPU has confirmed in writing it considers both technical advisers members of its organisation. Both groups still maintain they complied fully with the requirements.

A third consortium, led by the Brazilian airline VASP, was ruled out of the bidding on financial grounds. It is considering an appeal.

The loss-making entity Encotesa has only about 40 per cent of Argentina's postal market. Potential buyers have been attracted by the prospect of rising postal volumes and the possibility of using some of Encotesa's 6,000 branches to sell financial and other services.

Encotesa hopes the winning bidder will invest $25m (£15.6m) a year in the service for the first 10 years of a 30-year concession. Three consortia are left in the race, including one comprising Banco de Galicia and the local industrial holding company Macri, with technical advice from the British Post Office.

THE UK BUDGET

COMMENT & ANALYSIS

FINANCIAL TIMES
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Iron chancellor bends to the wind

In opposition, Mr Gordon Brown rejoiced in the title of "iron chancellor". In his first Budget yesterday he showed that he was made of more malleable stuff.

He began with stirring rhetoric about long term fiscal and monetary prudence and a robust analysis of the dangers facing the UK economy: overheating, fired by a consumer boom and rapid growth in the service sector; surging sterling and disappointing industrial investment; lopsided economic expansion and rising inflationary pressures.

He explained that the 3½ per cent rate of growth which the Treasury is now predicting for this year is incompatible with a long term growth potential of some 2¼ per cent. The economy, he confirmed, now lacks spare capacity. And let no-one doubt, Mr Brown proclaimed, that he was the man to take the necessary fiscal measures to match a monetary tightening by the Bank of England to keep inflation under control.

So far, Mr Brown seemed entirely in accord with the consensus of the day, including the Bank of England, most independent economic institutes and a large part of the City.

Alas, when he started to serve up the numbers, Mr Brown was revealed to be more steely in rhetoric than in resolve. He did, it is true, raise taxes by £3.4bn in the current year and by £4bn next (£6bn if the one-off windfall tax on privatised utilities is included). However, this was a bare minimum response to the strong warnings with which he began his speech. As had been widely predicted, he lacked the stomach to direct much of tax increase at the part of the economy which now needs to be curbed – domestic consumption.

Even after his Budget the Treasury predicts that consumer expenditure will rise by 4½ per cent this year, while the balance of payments deficit widens from £2¼bn in 1996 to £4¼bn in 1997.

His only substantial measures to affect the personal sector were a reduction of mortgage interest relief to 10 per cent, an increase in stamp duty on more expensive houses and a 6 per cent real increase in fuel prices. The cut in mortgage interest relief was indeed the right thing to do, but the measure announced yesterday, a cut from 15 per cent to 10 per cent, showed every sign of political compromise – timid indeed, when full abolition could have easily been justified. Deferring the change to the next financial year was also too soft, considering the chancellor's anxieties about annual house price inflation, now running at around 11 per cent.

The direct hit on the personal sector amounts to only about £1bn this year, a trifle compared with the £94bn which consumers are expected to spend this year than they did last year, and the £30bn or so of windfalls which people are expecting from demutualisation of building societies and other institutions.

Unfortunately Mr Brown arrived in Downing Street with a clutter of populist baggage. Too much of it made its way into the new despatch box with which he has replaced Gladstone's battered case. The party unwisely ruled out a broadening of the value added tax base. It is committed in future to a 10p starting rate of tax which makes little sense, and almost any increase in the income tax burden now seems to be out of bounds. While low personal taxes are no doubt desirable, Labour's first Budget clearly shows the penalty of laying too many electoral sweeteners on the table.

It was not surprising, therefore, that Mr Brown decided to raid the corporate sector. As expected, he raised £2.3bn from the abolition of dividend tax credits in the current year, rising to nearly £4bn next year. This will, other things being equal, depress share prices, reduce the value of pensions and, to the extent that companies offset these effects, raise the cost of capital. All of this is bad for the investment on which Mr Brown laid such emphasis, and will do little to cool down economic growth in the short term. He has made a few concessions, most importantly by lowering the rate of corporation tax from 33 per cent to 31 per cent. This may, as he hopes, encourage inward investment. But the claimed enhancement of corporate investment is likely to be more than nullified by the abolition of dividend credits.

He has also recognised that the abolition of credits might result in the double taxation of company profits for shareholders – paying first in corporation tax and second in full income tax on dividends. There are, therefore, some offsetting measures: a partial protection for higher rate taxpayers and some shelter eventually in special tax exempt savings accounts.

These offsets at least show sensitivity to the need for tax fairness, but the chancellor would have done better to leave changes to corporate taxes until later. These measures provide little evidence of the considered review he claimed, and savour much more of opportunistic tinkering.

The other substantial money-raising measure was the windfall tax, which was pitched at a level designed to cause only a tolerable volume of outcry from the utilities. The tax, conceived during opposition out of shallow populism and the need for cash, has gained nothing in respectability from its detailed implementation.

True, some attempt has been made to relate it to a measure of excess profits in the first four years after each utility was privatised. But incidence of the tax remains arbitrary. And by focusing on the first four years, the chancellor has emphasised the inequity of a retrospective tax which penalises present shareholders for windfalls made by another group perhaps a decade ago.

Despite these criticisms, however, Mr Brown must be congratulated for being clear about the economic problem, and for moving in the right direction, towards fiscal balance. He felt obliged to throw a few fish to his back benchers by reallocating £2.2bn of next year's contingency reserve to health and education.

But despite the cheers it seems clear that he is grimly determined to stick to the very tight spending totals which he inherited. Indeed, the health budget was so unrealistically tight that some slippage was inevitable under any government.

If Mr Brown really can stick to the spending totals he could, by the end of the century, become only the third of the 20 post second world war chancellors to achieve a surplus. The first was Roy Jenkins, who turned a Tory deficit of 5 per cent of GDP into a surplus of 1¼ per cent in only three years.

The second was Nigel Lawson who achieved a record surplus of 3 per cent of GDP nine years ago and then blew it all by later laxity. This time round the Bank of England is in charge of interest rates so after the Budget they will have to go up.

Even so, Mr Brown still needs to take care that the economy does not slide down the same chute as under the Tories after 1988.

A missed opportunity

MARTIN WOLF

The Budget was not as radical as might have been hoped, but it has not done too much damage

Mr Gordon Brown boasted when presenting Labour's first Budget for 18 years yesterday that "this is a government that keeps its promises on tax". A democrat must admire the intention, but an economist must bewail the promises. The overall result is a missed opportunity.

The Conservative governments of the past 18 years achieved much good, as Labour tacitly acknowledges. Equally, Labour's fiscal inheritance could have been far worse. Yet Mr Brown is right to argue that investment has been far too low, both in people and in physical assets. If the long-term performance of the economy is to improve, investment does need to rise.

The chancellor is equally correct in his assessment of the economy today. It shows the distressingly familiar signs of incipient overheating. Consumer spending is forecast to increase by 4¼ per cent in real terms this year; house prices are rising sharply, particularly in the south east; and broad money is growing at 10 per cent.

The Treasury's view that the output gap may already have disappeared seems plausible. It would have been foolish for the chancellor to assume anything else.

The question is whether this sound analysis has been matched by equally sensible policy. The answer is no. A Budget supposed to curb consumption and promote investment inflicts most of its pain on corporations rather than households and on savings rather than consumption. The well-conceived radicalism of Mr Brown's liberation of the Bank of England has not been matched by his fiscal actions.

The most obvious missed opportunity was the failure to abolish mortgage interest relief outright. The reduction of the relief to 10 per cent, from 15 per cent, raises £900m in 1998-99, from an indexed base, and another £950m the following year. But once Mr Brown and Mr Tony Blair, the prime minister, had agreed this change at least was consistent with their manifesto, it is impossible to understand why they did not abolish it. This would have raised another £2bn.

With this and every other opportunity to attack more questionable allowances foregone, the measures chosen were bound to be second best. The increase in stamp duty, for example, is a tax on mobility.

The problem with the British housing market is not that people find it too easy to buy and sell, but that too many look to their house as an investment asset rather than as a dwelling. No increase in stamp duty, combined with a larger withdrawal of mortgage interest relief, would have been far more sensible.

The decision to lower VAT on domestic fuel and power from 8 to 5 per cent was well trailed. It does not make it any more sensible, since it will give the biggest benefit to those with the largest heating bills – hardly likely to help the poorest. It falls particularly strangely alongside proposals to raise the rate of increase in taxation of road fuel to 6 per cent in real terms. Equally well trailed is the commitment to introduce a 10p starting rate of tax, which the chancellor reiterated. But repetition does not make that a better idea either.

Yet the heart of the fiscal side of Mr Brown's budget remains the assault on corporations, particularly his decisions to eliminate the credit for advance corporation tax and impose the expected windfall tax on privatised utilities. The first of these is to raise £2.3bn this financial year, from an indexed base, followed by £3.95bn in 1998-99 and £5.4bn the year after. The latter is to raise £2.6bn in 1997-98 and the same again in 1998-99.

Even allowing for the welcome reduction in the rate of corporation tax, from 33 to 31 per cent, the corporate sector is badly hit: its overall tax burden is set to rise £4.9bn this year (leaving aside anti-avoidance measures), £4.9bn again in 1998-99 and £3.1bn in 1999-2000, after the windfall tax ends. Over three years, the owners of corporate assets will be at least £12.9bn worse off for Mr Brown's Budget. Why this smash-and-grab raid should encourage investment is, to say the least, not obvious.

That said, the windfall tax, albeit objectionable in principle and arbitrary in its calculation, makes some effort to calculate the value of the excess profits to the shareholders. Unfortunately, the shareholders who received the profits are not likely to be those of today. Equally objectionable is the notion that pension funds, both corporate and personal, can be taxed more heavily without adverse consequences for pensioners, investment or, in all probability, both.

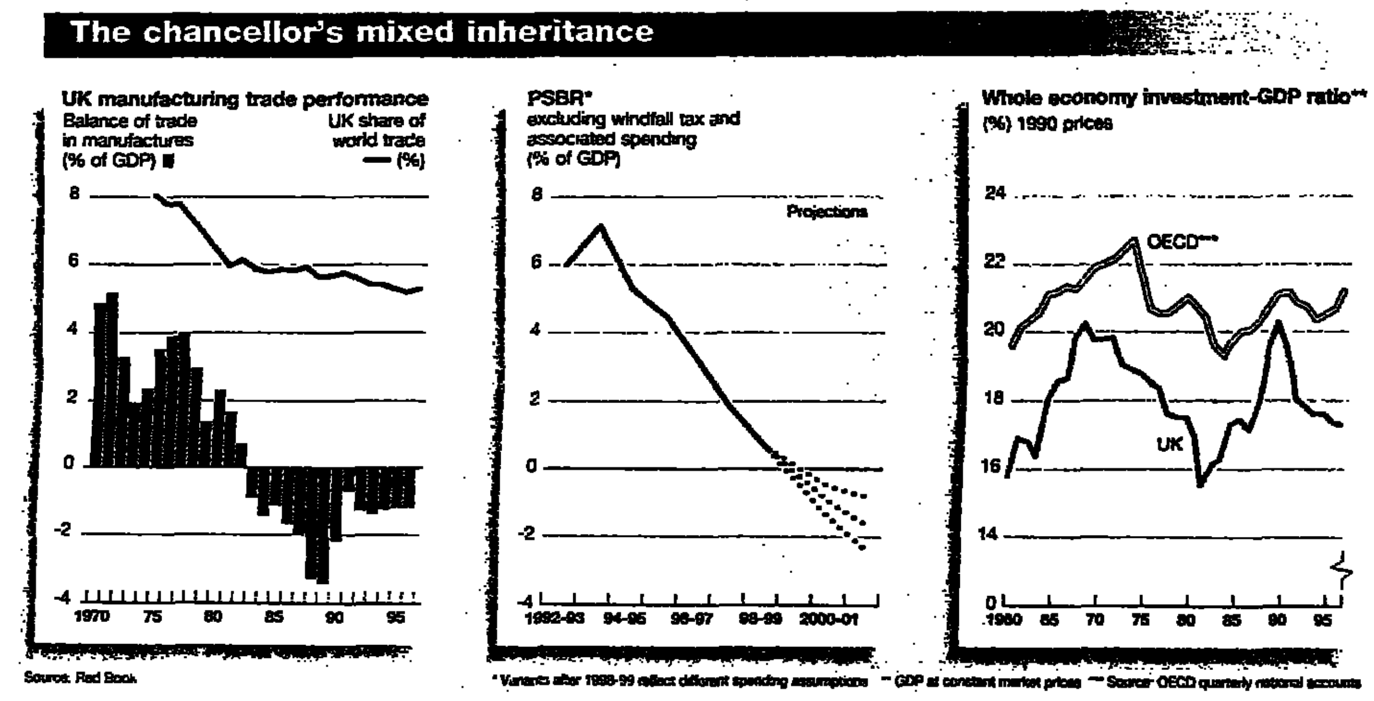
If the fiscal changes remain as disappointing as they were expected to be, the spending plans are more defensible. Whether the welfare-to-work proposals function as hoped is far from evident. But the underlying principle that able-bodied people should not expect to receive support for remaining idle is right, both morally and economically. The question remains, however, how a long-term programme to increase employability can be financed from a one-off tax.

A still more interesting question is how public spending is set to evolve over the course of the parliament. That will depend on the outcome of the spending reviews now under way. But the chancellor reconfirmed his intention to stick by the previous government's plans for this financial year and 1998-99. He has dealt with the most obvious problem created by this commitment by allocating £2.2bn from the contingency reserve to health and education next year. Now departments know what they will have and that the long-term spending reviews themselves are serious exercises.

This Budget will not be remembered for its radicalism. It will also leave most of the burden of slowing down the runaway engine of consumption on the Bank of England and higher interest rates. That, in turn, means a strong pound. Taken along with the fiscal assault on the corporate sector, this can only be seen as a Budget for bashing business. In all, it is as old Labour as it is new. It targets the corporate sector. But it is also fiscally prudent.

On balance, the Budget is, as expected, no radical departure. The proposals are also partly misconceived and partly misdirected. But Mr Brown has not done too much harm. He has now almost a year of reflection in which to work out how to do a great deal more good.

The chancellor's mixed inheritance



Source: Red Book
* Variants after 1998-99 reflect different spending assumptions ** GDP at constant market prices *** Source: OECD quarterly national accounts

High-risk spending strategy

NICHOLAS TIMMINS

Allocating most of his contingency reserve now may leave the chancellor badly exposed later

With the sort of bold gesture for which he is cultivating a reputation, the chancellor yesterday produced the funds necessary to allay the worst fears of the National Health Service and of schools over public spending for next year.

It was the sharpest stunt of the Budget. This does not mean, however, that with one bound the chancellor is free. The good news for schools and hospitals is likely to prove bad news for just about everybody else – and even monies poured into the NHS will turn out to be copper and silver rather than gold.

Traditionally, the contingency reserve – the cash the government holds in its back pocket for crises such as bovine spongiform encephalopathy, or "mad cow disease", and for distribution in the later years of the public spending round – is doled out in the autumn.

This year is different. First, the government is tied to spending plans for next year which allow for barely 0.5 per cent real-terms growth in public spending. And second, Mr Gordon Brown is determined not to have anything remotely resembling a conventional public spending round this year, with no further Budget until next spring.

His answer was to distribute now most of the cash available from the £5bn reserve. Traditionally, chancellors halve the reserve as they enter a new financial year – which in this case would leave about £2.5bn available for departmental spending in 1998-99 and £2.5bn to be held back for unforeseen crises next year.

What the chancellor has done is to allocate most of the £2.5bn for departmental spending early – £1.2bn for the NHS and £1bn current spending for education. Roughly speaking, that leaves only about £300m for conventional spending: cash which later in the year can be slipped out to other departments and to local government to ease the frighteningly tough spending plans they face for the year from next April.

For the NHS, the extra money – £1bn of it for England – means 2.25 per cent growth in real terms. This is less than the running average of 3 per cent the Conservatives achieved over 18 years, but far better than the impossible 0.2 per cent increase pencilled in for next year.

It is not riches, but it considerably reduces the chances that government ministers will find themselves celebrating next year's 50th anniversary of the NHS amid a full-blown financial crisis next summer. It will still not be that good because the NHS is carrying a hangover of £350m in debt from last year which it is unlikely to clear entirely this year.

And the spending situation at present is so tight that waiting lists are bound to carry on growing. Where, only recently, hospitals were achieving maximum waits for treatment of only nine months, senior NHS officials reckon the service will be lucky if, by the end of this financial year, it holds to the Conservatives' Patient's Charter guarantee that no one will wait more than 18 months for treatment. Labour's manifesto commitment of cutting waiting lists by treating an extra 100,000 patients will come nowhere near being achieved, in spite of yesterday's extra cash.

Schools are likely to be happier. The £1bn for them – plus the extra capital spending – was more of a surprise. It is doubtless intended to signal that there will be more to come later in the parliament.

Council finance officers had calculated that schools needed an extra £815m next year to meet inescapable costs, such as the phased teachers' pay award, and essential requirements such as an increase of 55,000 in school pupils. The £1bn will be welcome news indeed.

But education will be the only bit of local government that is celebrating. Elsewhere gloom will reign. The £2.2bn taken by health and education means there will be precious little, if anything, left for other services – police, fire, libraries, museums, highways maintenance and, perhaps most critically, social services.

A recent survey showed that several local authorities have already set "stringent limits" on the number of care home places they are buying, while other services have also taken significant cuts. The result is more blocked beds in the NHS as elderly patients cannot be discharged to support at home or to a place in a care home.

Without additional money for social services, bed blocking is likely to get worse – limiting the impact of the extra NHS spending, in spite of the government's embryonic plans to allow more pooling of health and social services budgets.

As for the other services, and for other government spending departments, they face as tough a time now as they did before the Budget. The government will now attempt – the welfare-to-work programme aside – to deliver a lower level of growth in public spending over a two-year period than any government has achieved for decades.

The chancellor's strategy is plain: bring the pain early in the parliament in order to deliver gain – and more generous public spending – later. It is, however, a high-risk approach. If yesterday's measures do not prove adequate, and the perception grows that services are failing under Labour, many more people in a growing economy may flee the public sector for private health and education. Those no longer benefiting from services for the taxes they pay may become ever more reluctant to pay them.

The result would be a spiral of decline in which a Labour government, of all governments, found it had fundamentally shifted the public/private boundary in two of the areas about which it most cares – health and education. Once moved, the boundary would prove extremely difficult to shift back. Within the constraints he had set himself – his hair-shirt acceptance of the Tories' spending plans – Mr Brown did his best yesterday to avoid that. The question is: will it prove to have been enough?

صحيفة من الاهل

Chancellor warns that danger signals seen in earlier recoveries are reappearing

'I will not repeat past mistakes'

The chancellor began his speech by setting out the background to his measures. The following is an extract:

"Behind the numbers and statistics the central purpose of this Budget is to ensure that Britain is equipped to rise to the challenge of the new and fast changing global economy . . . The impact of the global market in goods and services, and of rapidly advancing technology, is now being felt in every home and every community in our country. New products, new services, new opportunities challenge us to change; old skills, old jobs, old industries have gone and will never return.

"Yet for our country, the first industrial nation, this new global economy, driven by skills, creativity and adaptability, offers a historic opportunity. The dynamic economies of the future will be those that unlock the talent of all their people, and our creativity, our adaptability, our belief in hard work and self-improvement, the very qualities that made Britain lead the world in the 18th and 19th centuries, are precisely the qualities we need to make Britain a strong economic power in the 21st century.

PA News

Leader of the House Ann Taylor and prime minister Tony Blair listen to Gordon Brown

"But to achieve this we must address the four weaknesses that have held us back for too long and for too many years – instability, underinvestment, unemployment and the waste of talent . . . In a global economy, long-term investment will come to those countries that demonstrate stability in their monetary and fiscal policies and in their trading relationships, and for Britain this means stability in our relations with Europe.

"In May the Government established a wholly new framework for monetary stability, open and accountable, based on clearly established rules and discipline. The government sets the inflation target and the Bank of England sets interest rates to meet that target.

"This reform signified our determination to break from the short-termism of the past and establish long-term confidence . . .

"The chancellor is first and foremost the guardian of the people's money. But during the 1990s the national debt has doubled. This year alone the taxpayer will pay out £25bn in interest payments on debt, more than we spend on schools.

"Public finances must be sustainable over the long term . . .

"My first rule - the golden rule - ensures that over the economic cycle the government will borrow only to invest and that current spending will be met from taxation. My second rule is that, as a proportion of national income, public debt will be held at a prudent and stable level over the economic cycle. And to implement these rules, I am announcing today a five year deficit reduction plan . . .

"We have seen a rapid growth of consumer spending of nearly 4 per cent over the last year . . . The growth of average earnings has accelerated to 4.5 per cent a year. The rate of broad money growth has been around 10 per cent for a year. These increases in consumer spending, earnings and money supply are continuing even as industrial production and manufacturing output have been recovering only slowly . . . Britain cannot afford a recurrence of the all too familiar pattern of previous recoveries: accelerating consumer spending and borrowing, side by side with skills shortages, capacity constraints, increased imports and rising inflation.

"Already there are warning signs that this pattern could be repeated . . . I will not ignore the warning signs and I will not repeat past mistakes. The Treasury's assessment is that the output gap is close to zero and there is a risk that output could already be above trend. In other words, our sustainable rate of growth is too low for growth to continue at its current pace without the risk of more inflation."

Tax fails to ruffle former state utilities

By David Wighton, Political Correspondent

Most of the privatised utility companies yesterday reacted calmly to the details of the £5.2bn ($8.58bn) windfall levy which sees the water and electricity companies bearing the brunt of the levy and British Telecommunications facing a bill of about £500m.

The water and electricity companies will pay almost three quarters of the bill, slightly more than City expectations, with BT, the airports owner BAA, and Railtrack getting off more lightly than some forecasters expected. National Grid and British Energy will pay no tax while for Centrica, the gas supply company demerged from British Gas, the impact of the windfall tax will be largely offset by the government's decision to scrap the gas levy.

Some electricity companies warned that the tax would hit their investment plans but BT was more conciliatory about its bill which some analysts had predicted could top £1bn.

Sir Iain Vallance, BT's chairman, who recently threatened to challenge the legality of the tax if it was too large, described its £500m bill as "not a small sum" but expressed relief that it was not as high as earlier speculation.

Analysts said the design of the formula favoured companies such as BT and BAA while being more harsh on the water companies and regional electricity companies. This was in line with the determination of Mr Tony Blair, the prime minister, that the bulk of the tax be levied on the water and electricity sectors.

The bills for BT, National Power and PowerGen were less than many analysts had predicted because the formula took account of the fact that their privatisations took place in stages.

● It appears unlikely that any electricity companies will challenge the tax, Simon Holberton writes. The electricity industry will have to pay 40 per cent of the tax. City analysts said, however, that the £2.1bn to be raised from the industry was broadly in line with expectations.

"I think they'll all pay it, that's the sensible thing to do," said one observer. "At an aggregate level there are few surprises."

This was endorsed by one industry chief who said: "This will get through. I don't see anybody challenging this tax."

The company with the biggest tax appears to be Scottish Power, the multi-utility. Its tax liability will be nearly £320m, of which about £93m covers its Scottish business.

The water industry was hit slightly harder than expected by yesterday's windfall tax proposals. While the total to be raised – £5.2bn – was in line with expectations, the industry's share of £1.65bn exceeded them, Jane Martinson writes.

Mr Mike Keohane, corporate communications director at Anglian Water in eastern England, echoed other sector executives, saying: "It does look as though the water and electricity companies have taken the lions' share of the burden".

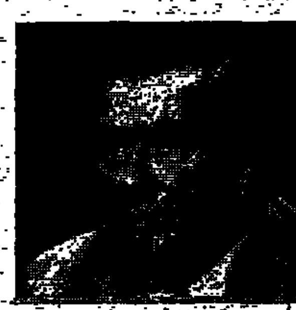
Anglian was one of the few companies which had managed to make a swift assessment of its individual burden an hour after the chancellor stopped speaking. Mr Keohane said rough calculations indicated a charge to the company of £132m. This would increase the group's gearing levels by less than 10 per cent.

He rejected Mr Gordon Brown's suggestion that the tax would not affect prices, investment, service or jobs. "Taking that money out every year is going to inhibit us in some way. Either it's going to restrict our ability to fund special projects or the timing and extent of future price reductions."

Past Labour Budgets: a struggle with inflation and union power

James Callaghan

Roy Jenkins



Denis Healey

What did they do?

1965 First Budget in wake of Labour party's election victory in 1964 after three years of Conservative government. Big rises in taxes on tobacco and alcohol and the launch of capital gains and corporation tax left the City of London stunned.

1967 Derided by Conservatives as "the Budget that never was": imposed one-year 10% rise in surtax.

1968 His first Budget speech came a few months after the devaluation of sterling and included a warning that the nation faced two years of "hard slog" and sacrifice. Taxes on petrol, tobacco and alcoholic drinks rose sharply.

1969 "There is still a long way to go," said Jenkins, raising corporation tax and the hated selective employment tax. The measures were derided as "a dead-end Budget from a fag-end government" by Conservative leader Edward Heath, who became prime minister little over a year later.

1974 He presented his first Budget against a background of daunting economic problems only three weeks after being appointed chancellor. Inflation was 13 per cent and rising and the City was numbed when Healey raised corporation tax, tax on investment income and the basic rate of income tax.

1976 The powerful trade union movement condemned the Budget, in which an easing of personal taxation depended on unions accepting a ceiling of "about 3 per cent" on pay rises.

Where are they now?

Callaghan succeeded Harold Wilson as prime minister in 1976, presided over the 1978-79 "winter of (trade union) discontent" and was ousted in 1979 by the Conservatives led by Margaret Thatcher. Now aged 85, he is a member of the House of Lords.

Now aged 76, Jenkins is a lord and chancellor of Oxford University. He was president of the European Commission in the late 1970s and in the 1980s helped to found Britain's short-lived Social Democratic party and became one of its MPs

Healey, aged 79, is now a lord. In 1980 he failed to succeed Callaghan as Labour party leader.

Bond trade turnover may fall

By George Graham, Banking Correspondent

Turnover in the gilt-edged government bond market could fall as a result of changes to the taxation of gilt interest. With effect from April 6 1998, all gilt interest can be paid gross without the deduction of income tax, although investors who wish to continue receiving net payments will be able to do so.

That could simplify life for some investors outside the UK who now have to engage in "coupon washing", converting the interest into a capital gain by selling gilts just before their coupon becomes payable, and then buying them back again.

"It will slash turnover because there will no longer be any need to coupon wash," said Mr Andrew Roberts, bond analyst at Union Bank of Switzerland.

The change will enable the government to scrap arrangements now used to enable a gilt holder to receive coupons gross, such as "Star accounts", which were introduced for companies and other UK exempt bodies to help the gilt repurchase market to get off the ground. The mechanism requiring companies which receive interest gross to pay tax on them quarterly will remain in place.

The Bank of England, which oversees the gilts market, described the changes as "a major simplification," and said they would "substantially reduce the tax compliance burdens of custodians and others."

The Inland Revenue said the measure would not change the overall amount of tax paid. However, changes in the timing of tax payments would cost the government £75m ($124m) in 1998-99 and £30m in 1999-2000, but would yield £10m in 2000/01 and £20m the following year.

● The pension fund industry was last night unanimous in condemning the chancellor's decision to abolish the advanced corporation tax credits system, write William Lewis and Christopher Brown-Humes.

Fund managers, pension funds and actuaries all said it would force companies to make unexpected payments to the pension funds they sponsor in order to avoid going into deficit.

Longer term, the chancellor's move is also likely to raise the cost to companies of sponsoring final salary pension schemes.

Mr Brown said many pension funds were in substantial surplus and enjoying contribution holidays, making it "the right time to undertake a long-needed reform; so with immediate effect I propose to abolish tax credits paid to pension funds and companies".

However, the National Association of Pension Funds described it as "the biggest attack on pension provision since the war" and said it would affect "not only companies but millions of ordinary people".

Mr Peter Murray, NAPF chairman, said the move would take more than £50bn of extra pension contributions from sector employers over the next ten years. "Even Robert Maxwell only took £400m," he said.

The NAPF, which waged a intensive campaign to dissuade the chancellor from scrapping the tax credit for pension funds, predicted the extra revenue the government expected to gain would in fact be largely offset by higher allowances and higher public sector costs.

Reflection may bring about less festive reaction

Corporate sector looks out of pocket after abolition of credits is set against surprise tax cut

When the Chancellor announced his measures on corporation tax yesterday, share prices jumped sharply. The market had been partly primed for the bad news – the abolition of tax credits for pension funds. The good news – a two-point cut in the corporation tax rate – came without warning.

On more mature reflection, the reaction may be less festive. First, the abolition of tax credits will be immediate and total, rather than staggered over the life of this parliament. According to some actuarial opinion, the cost to all pension funds will be around £2.5bn ($4.12bn) a year. Some stock market analysts are gloomier, putting the bill to the corporate sector alone at nearer £5bn.

Against that, the cut in the main rate of corporation tax from 33 per cent to 31 per cent is estimated by NatWest Markets to be worth only some £1.6bn in the first year, and £2.2bn thereafter. So far, the corporate sector looks out of pocket.

Meanwhile, the much-heralded measures to boost corporate investment turn out to be small beer. First year capital allowances – the amount of investment which can be offset immediately against tax – are being raised from 25 per cent to 50 per cent, but only for small to medium-sized enterprises. Back in the early 1980s, they stood at 100 per cent. Adding insult to injury, the increase is only temporary.

There was one more unpleasant surprise for corporations lurking in the statement. Foreign income dividends are to be abolished, ostensibly because the abolition of the tax credit for pension funds means they are no longer relevant from the investor's viewpoint.

But they remain highly relevant for corporations which derive the bulk of their profits from outside the UK. Before foreign income dividends were introduced in 1994, such companies found that having paid ACT on their dividends, they were not generating enough mainstream UK tax to cover it. They are now back in the old position, and paying more tax in consequence.

Overall, though, the main blow to the corporate sector is the abolition of the tax credit for pension funds. In pure actuarial terms, it might not matter whether the abolition is gradual or all at once. Practically speaking, though, the cost may now have to be faced more immediately.

Under the Pensions Act, companies must reach a minimum funding requirement. For private sector funds as a whole, the effect of abolishing the tax credit might be to reduce the level of funding from between 110 per cent and 115 per cent of liabilities to close to 100 per cent.

In some already publicised cases, such as British Telecom or ICI, the level of funding will drop below the minimum. Assuming these companies undertake an actuarial valuation immediately – as would seem prudent – they will have until 2001 to top up their funds. Alternatively, corporations will feel obliged to raise their dividends to compensate shareholders for the drop in their income.

Either way, cash flow will be affected. At the margin, corporate investment will presumably be hit as well – a result rather at odds with the Chancellor's rhetoric.

For the corporate sector, there is one further worry. The Budget seems to do little to curb consumer spending. It thus seems all the more likely that UK interest rates will be put up again.

That was certainly the assumption of the foreign exchange market yesterday, where sterling rose sharply.

Tony Jackson

BUDGET DIGEST

Windfall tax to raise $8bn

The chancellor's much-publicised "windfall tax" is intended to raise £5.2bn ($8.6bn), and privatised utilities will be able to pay the tax on their profits in two instalments – December 1 this year and December 1 1998.

The companies' windfall bills will be based on differences between value at privatisation and more realistic market valuation, based on after-tax profits up to the first four full accounting years after sell-off.

Some £200m from the windfall tax will be used to help support lone parents.

● Corporation tax is to be cut by 2 per cent to 31 per cent to apply from April 1997. Advance corporation tax is to continue to be paid by companies at the same rate as now, but the foreign income dividends scheme will end from April 6 1999. Tax credits paid to pension funds and companies will be abolished immediately. There is to be no change to income tax at basic or top rate, and a 10 pence rate of income tax will be introduced "as soon as it is prudent".

● First-year capital allowances on plant and machinery for small and medium sized firms are to double for one year immediately.

● From next year, people aged 18 to 25 who have been unemployed for more than six months will be given steps on "jobs ladders" in measures to be announced today. Benefits will be cut if opportunities are not taken. There will be a £75 a week subsidy to companies to employ long-term unemployed people.

● Duty on alcoholic drinks is to rise in line with inflation. From January 1998, a bottle of spirits will rise by 19 pence, a pint of beer by 1 penny, a bottle of table wine by 4 pence and higher strength alcohol 1 penny.

● Road fuel tax is to increase immediately by 4 pence a litre on all fuels. Car tax rises will be in line with inflation from November 17 – up to £150 a year.

■ FILM INDUSTRY

Write-off move 'wonderful boost'

The news that film makers will be able to write off 100 per cent of the production or acquisition costs of any pictures with budgets of less than £15m ($24.75m) against tax was warmly welcomed by the film industry.

Sir Sydney Samuelson, the British Film Commissioner, hailed it as "a wonderful boost". He expects the initiative, whereby for three years financiers can write off a film's costs in the year in which they occurred, will trigger an increase in investment from film makers in the UK and elsewhere.

Mr Tony Blair, the prime minister, and other senior Labour politicians have shown greater enthusiasm for the creative industries than their Conservative predecessors. Sir David Puttnam, the Oscar-winning producer, is an influential figure in Labour circles, as is Mr Wilf Stevenson, who recently resigned as director of the British Film Institute to become an adviser to Mr Gordon Brown, chancellor of the exchequer. Mr Marc Samuelson, producer of *Wilde*, the film on the life of Oscar Wilde which is due to be released in October, said the tax breaks promised to be particularly helpful at winning over the "serious corporate investors who in the past have dithered about investing in film". *Alice Rawsthorn, London*

■ NORTHERN IRELAND

Minister welcomes $97m funding

Ms Mo Mowlam, chief minister for Northern Ireland, welcomed the Budget announcement giving Northern Ireland an extra £58.8m ($97m) in 1998-99 for schools and the state health service.

The region's schools will receive a further £2.6m this year and £7.8m next year for refurbishment and repairs. Northern Ireland will also receive funding from the windfall tax to enable full participation in the new welfare to work programmes.

"The extra £140m which we will receive for this initiative will ensure that Welfare to Work makes a major start to overcoming the scourge of unemployment, particularly in the most deprived areas of Northern Ireland," said Ms Mowlam. "This will also make a crucial contribution to our policy of targeting social need."

N Ireland business speaks out on violence, Page 10

■ TOBACCO

Cost of cigarettes set to rise

The cost of a packet of 20 cigarettes is set to rise by 19 pence (31c) from December 1. The move was hailed as "courageous" by health campaigners and condemned by the pro-smoking lobby. Under Conservative tax measures, the price of cigarettes had been due to rise by 14 pence this year.

Action on Smoking and Health (Ash), a lobby group, estimated that the price increase would lead to a reduction in smoking of 2.2 bn cigarettes a year and net the Treasury an extra £690m. The Royal College of Physicians said the chancellor had made a "courageous attempt to tackle the huge cost of smoking". The Fair Cigarette Tax Campaign said the increase meant tax on cigarettes was now 80 per cent on a typical pack of £2.63. The Tobacco Alliance, representing 26,000 independent cigarette retailers, said the increase was "like winning Wimbledon" for smugglers, inviting contraband which would damage lawful trade.

■ FUEL LEVIES

Warning on global warming

Mr Brown cut value added tax on fuel from 8 per cent to 5 per cent to help low income families, but environmental campaigners warned that the move would worsen global warming.

They called the Budget "deeply disappointing" and said they had hoped Mr Brown would also have cut value added tax on energy-saving goods from 17.5 per cent to 5 per cent following the pledge by Mr Tony Blair, the prime minister, at last week's Earth Summit to tackle global warming.

Environmentalists said yesterday's change in fuel tax would increase the amount of fossil fuel burned and with it the level of greenhouse gases. The Energy Saving Trust estimated that an extra 1m tonnes of carbon dioxide would be emitted every year. Friends of the Earth said: "There is a real gap between Tony Blair's words at the Earth Summit and what his Chancellor has said today."

■ TRAVEL INDUSTRY

Challenge over holiday tax

The Association of British Travel Agents (Abta) will today launch a challenge against the British government in Europe over a holiday tax which it claims breaches European law.

The previous Conservative government increased insurance premium tax on the sale of travel insurance from April 1 to 17.5 per cent for travel agents but allowed travel insurance sold by banks, brokers and newsagents to be taxed at 4 per cent.

Abta hoped the difference in tax rates would be ironed out in the Budget but the chancellor made no mention of a change. "The opportunity to right the wrong has been missed and we are now taking our case to Brussels," said Mr Ian Reynolds, chief executive of Abta. Lunn Poly, the UK's largest travel agent, which is taking the government to court in the UK, was yesterday given leave to apply for a judicial review. *Scheherazade Daneshkhu, London*

Bond dealer was one of more than 1,000 staff dismissed by US bank in 1994-95

Goldman may contest race ruling

By John Gapper, Banking Editor

Goldman Sachs, the US investment bank, was yesterday considering whether to appeal against the finding of a London industrial tribunal on Tuesday that it had discriminated against Mr Jim Curry, a black American bond salesman. The claim arose from his selection as one of the 1,028 staff dismissed by Goldman in late 1994 and early 1995.

The finding was not only damaging for Goldman's reputation as an employer, but also for its reputation for truthfulness. The tribunal rejected parts of the evidence of three partners, including Mr Frederik Garonzik, co-head of its bond division, and of its global "diversity committee," which monitors discrimination.

One irony of the case is that the success of US banks such as Goldman and Morgan Stanley in the City of London has contributed to the breaking of some traditional employment barriers. As the City has deregulated, the old predominance of men educated in non-state "public" schools has been – to a degree – undermined.

Racial discrimination has become a topic of renewed concern to US banks. Two black employees of Morgan Stanley in New York have sued for $30m, alleging racial discrimination related to racist e-mail jokes, and the Rev Jesse Jackson has opened a branch of his Rainbow/Push Coalition on Wall Street.

Goldman is not the most likely place to find blatant racial discrimination. The investment bank has more than 50 nationalities in London, and estimates that 6 per cent of its vice presidents – Mr Curry's grade – are from minorities, compared with 5.5 per cent in the UK population as a whole.

The bank also has a motive to seek diversity in nationalities. Its corporate finance advisers must deal with governments and companies across Europe, South Africa and the Middle East, and US banks try hard to avoid seeming overly-dominated by Americans.

Investment banks have some advantage in making objective judgments about staff performance. The contribution of a salesman such as Mr Curry – who earned $1.25m in 1993 – can be monitored by adding up the value of bonds he sells to investors.

Yet despite this, Goldman lost, and appears to have been the author of its own misfortune. Its evidence – including that of partners who supervised Mr Curry – was criticised as inconsistent. It did not demonstrate it had assessed Mr Curry's performance fairly.

Investment banks are not easy places in which to impose central disciplines and policies. They are composed of strong divisions with distinct cultures, run according to different rules.

Yet Goldman – the largest remaining private partnership on Wall Street – is known for having a more cohesive culture than many. Before the tribunal outcome was known, Goldman was already trying to reinforce its equal opportunities policy in Europe. It plans to import some US practices, including the selection of black graduates to join fellowship programmes, and work experience for minority students in London.

Violence does not pay, says N Ireland business

The business community in Northern Ireland abandoned its usual political reserve a year ago after disturbances in which roads and ports were blocked, factories burnt out and rural shops boycotted. The trigger for those events – a controversial march through the Ulster town of Drumcree – is due to be re-enacted on Sunday.

Mr Bill Tosh, chairman of Northern Ireland's branch of the Confederation of British Industry, has over the past year persuaded a number of businesses to come out from behind the parapet, forming business task forces to meet the politicians, and joining with unions and chambers of commerce to voice common concerns. Sinn Féin, the political wing of the Irish Republican Army, has regularly met representatives of the CBI.

At the height of last year's unrest, Mr Tosh's group issued a series of hard hitting statements, warning that Northern Ireland was being pushed close to the brink. Today he is confident the message may have seeped through to some in the fiercely pro-British Orange Order of Protestants.

"In business, if you have recurring losses you wouldn't last too long. In this society, civil unrest is our recurring problem," says Mr Tosh. During last year's Orange Order demonstrations, it was the middle-class Orangemen, many of them heads of small and medium sized businesses, who were directly involved, leading many of the protests.

"The change was that people realised that this time we were going to have to pay for the re-emergence of violence," he says. This year, Mr Tosh hopes moderate Orangemen may be less inclined to join in.

"I think that whatever happens this summer we have clearly got across to most people in Northern Ireland that the economy matters," he says.

Preoccupations with constitutional questions sometimes blind politicians to the economic impact of their actions. "Take the example of the proposed electricity interconnector from Scotland," Mr Tosh says. "I guarantee the unionists would be for it because they think the energy is red, white and blue while the nationalists would oppose it and argue we should be interconnected with the [Irish] Republic. None of them have evaluated the impact there will be on our electricity costs."

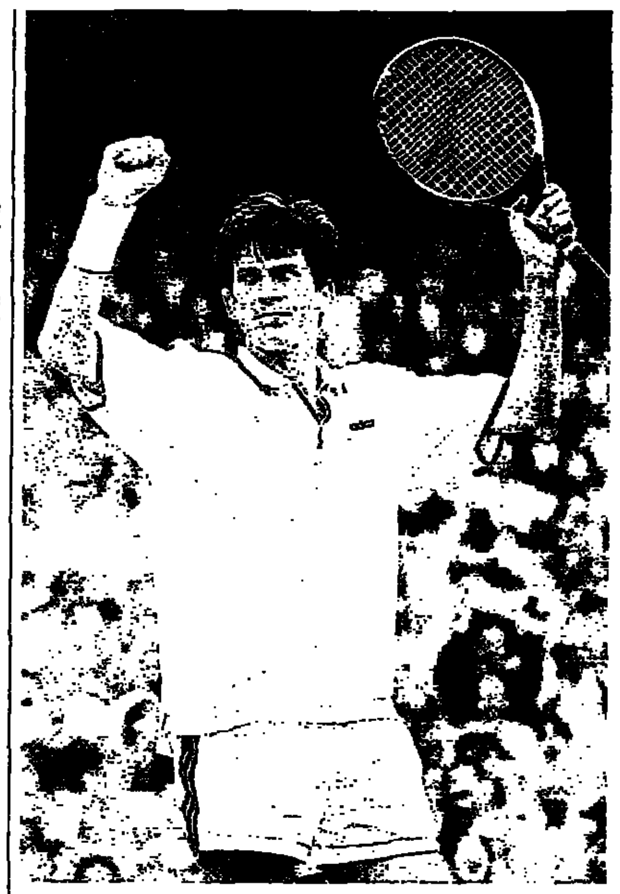
John Murray Brown

Six men involved in a plot by the Irish Republican Army to bomb electricity sub-stations and cripple power supplies to much of London and south-east England were jailed for a total of 210 years in London yesterday.

Mr Justice Scott Baker, the judge, jailed each member of the gang for 35 years. "Those who seek to advance a political argument by terrorism can expect no mercy in the courts of this land," he said.

"Your targets, with 37 bombs, were six sub-stations in a ring round London."

The six, who included a former US marine, were all found guilty of conspiring to cause explosions last year.



Reuters

Tim Henman, the 22-year-old 14th Wimbledon seed, celebrates on the centre court yesterday after defeating reigning Wimbledon champion Richard Krajicek 7-6, 6-7, 7-6, 6-4, setting up the prospect of the first all-British semi-final at the championships for 75 years. British number two Greg Rusedski is also into the final eight. The last men's singles final featuring a Briton was in 1938

Scottish yards win $300m Amerada order

By James Buxton in Edinburgh

Amerada Hess, based in the US, has placed a £180m ($297m) order with two construction yards in northern Scotland for an offshore platform for the Danish sector of the North Sea.

The order was won by Brown & Root Energy Services. The work will be carried out by Barmac, a joint venture of the US engineering companies Brown & Root and McDermott, at its yards at Nigg and Ardersier on either side of the Moray Firth near Inverness, the largest town in northern Scotland.

Barmac was formed in early 1995 when the two companies merged their offshore fabrication operations in the face of declining orders for large North Sea structures.

The new platform, for the South Arne field which is 60 metres deep, will consist of a steel lattice drilling tower mounted on a concrete gravity base which will sit on the sea bed. The steel topside structure will be built at Ardersier and floated across the Moray Firth to be fitted to the 100,000-tonne concrete base which will be built at Nigg.

The Nigg yard will re-open this month. It has been closed for a year to allow the upgrading of its dry dock. The platform for South Arne is due to be completed by April 1999.

● Shell Expro, the North Sea arm of Shell UK, has signed a series of long-term agreements with service contractors as part of its strategy to extend the life of many existing oilfields and gasfields, Robert Corzine writes. The contracts are valued at more than £650m ($1,072.5m) over seven years. The agreements are longer than any previously negotiated by Shell.

UK NEWS DIGEST

US tourist total up sharply

A big rise in the number of North American visitors to Britain has not been enough to avert the first overall tourism drop since 1991, official figures showed yesterday. "North America is looking very strong and they are the big spenders," said the British Tourist Authority.

The UK has attracted a growing number of tourists since the recession of the early 1990s, culminating in last year's record 26m. However, figures released from the Office of National Statistics yesterday showed a 1 per cent drop to 7.1m visitors in the first four months of the year compared with last year.

A 19 per cent rise in the number of North American tourists to 1.16m was not enough to offset a 6 per cent fall in the number of European visitors to 4.57m. The British Tourist Authority said the strength of sterling appeared to be affecting the number of short-break visitors from Europe. *Scheherazade Daneshkhu, London*

■ 'MAD COW' CRISIS

Burger King ends beef boycott

Burger King, the fast food offshoot of Grand Metropolitan, has followed McDonald's in announcing that it would reinstate British beef in its burgers, 15 months after the BSE, or "mad cow", crisis erupted. Mr David Williams, managing director of Burger King, said that up to half the beef used in Burger King's products would be British, with the rest from other European Union countries. The company said the move would be worth £10m ($16.5m) a year to British producers. *Alison Maitland, London*

■ VEHICLE COMPONENTS

Company plans $4.3m expansion

Eurosil, a privately owned British company which manufactures synthetic rubber components for car companies including General Motors, Nissan, Rover, Jaguar and Ford, has announced a £2.6m ($4.3m) expansion at its factory on Derwentside in north-east England. The project is receiving a £600,000 Regional Selective Assistance grant from the UK government. On Friday, German-owned Elring Klinger, a manufacturer of gaskets and sealing technology for the motor industry, will top out a new £6m factory near Redcar, Teesside, also in the north-east, creating up to 70 jobs. *Chris Tighe, Newcastle upon Tyne*

■ MOBILE TELEPHONES

Largest operator sees slowdown

Vodafone, the UK's largest mobile phone operator, signed only 53,000 new subscribers in the past quarter, highlighting a significant slowdown in growth in a market which was once Europe's most exuberant.

Last year, Vodafone signed 106,000 subscribers in the same period; the year before, the total was 222,000. Cellnet, the second largest operator, recorded 74,000 connections compared with 69,000 for the same period last year. Orange, the UK's leading PCS operator, which offers digital-only services for the mass market, recorded 86,000 new customers compared with 85,000 in the same period last year. In the last quarter, Cellnet recorded only 12,000 new customers. *Alan Cane, London*

Stunning performance: Gena Rowlands with Jake Lloyd in Nick Cassavetes' 'Unhook the Stars'

Cinema/Nigel Andrews

Delightful chaos of mid-life crises

The best actors break the rules of acting. Watching Gena Rowlands's heartfelt, funny, irresistible performance in *Unhook The Stars*, we realise that by the great minimalist book of screen acting – "Do not perform, but *be*" – she seems to be doing everything wrong.

She signals, even semaphores, her reactions and readings. That great fluffy face with its cat-like eyes, wide nose and quivering, imperious upper lip seldom goes into repose. And the voice, even when quiet, rides querulous, mellifluous swells full of gusting irony or spelled-out pathos.

Yet as the turning-60 suburban widow who wants to relaunch her life, in this chamber movie by her son Nick Cassavetes, Rowlands is stunning. Cassavetes has inherited his father John's world view. People clatter around in a chaos of mid-life crises, pushing in and out of each other's homes as if front doors were made to be swung off their hinges in 24 hours. The only justified life is that of the eternal good Samaritan. So Mildred (Rowlands) must look after J.J., the six-year-old son of scatty, husband-abused neighbour Monica (Marisa Tomei), while Mildred's own children try, hopelessly, to look after Mom.

They do not try that hard. The daughter (Moira Kelly) makes late peace-making moves after slamming the door and leaving in scene one. The son is a married yuppie (David Sherrill) who tempts Mildred to San Francisco to view a luxury granny flat with a distant view of Alcatraz. Before that inglorious trip, he has put the case for her not moving at all. "You have roots, friends, neighbours..." he says, whereupon she gives him an understanding look across the dining table and says, "Ah."

The film, wonderfully acted, is nearly all looks and tell-tale behavioural asides. Unlike his father, Nick Cassavetes treats dialogue as half the story or less. Tomei's hectic, haywire-blonde scatterbrain keeps pausing after each cataract of speech, as if assessing the latest damage her mouth has caused. Jake Lloyd as J.J. is a sort of human ET, mute, sage and serenely bewildered, whether Mildred is buying him a new bicycle or embarking on her project of reading the entire Encyclopaedia aloud day by day. Even Gerard Depardieu, loping in late as an improbable love interest ("I'm a French Canadian from Quebec" he tells Mildred before sweeping her off in his truck), plays games of expressive hide-and-seek with the camera, helped by a waterfall of hippyish hair.

The film is about the hilarity, and hopelessness, of sending out messages about one's life. It begins with a quiet scene of Rowlands delivering newspapers in a dawn street, it ends with a mystery airport departure. Betweenwhiles it delights in transit, tantalisation and subtle variations on distance and nearness: like the way Mildred removes her son's dark glasses before her welcoming, duty peck on the doorstep; or like the paper-delivering partnership she briefly strikes up with J.J., the old and young surreally joined in this harmonious, leisure-culture version of Neighbourhood Watch.

★

One Fine Day is another performance-driven movie. George Clooney, newest appointee to screen stardom, made this comedy before last week's *Batman And Robin*. But films are like buses: whatever time they leave they end up nose-to-tail somewhere along the road.

Britain has drawn the All-Clooney Midsummer. And who can complain when this man's charcoal eyebrows, rag-doll limberness of body language and *basso jocoso* voice make a mediocre romantic comedy watchable. Clooney plays an ex-married man who bumps into ex-married Michelle Pfeiffer outside a locked school door, each with an child of X-certificate ickiness in tow.

The kids have missed their day-long field trip, so Ma and Pa must take stressful turns looking after *both* during a day when each grownup has vital career interests at stakes. She is an architect, he a deadline-pressured reporter, and... Well, you get the point. The yuppie-in-peril and endangered-children comedy genres meet. Pfeiffer is an accomplished farceur who could do this role in her sleep. Unfortunately she mostly does, leaving Clooney to put what life and wit he can into a script that fails to furnish much of either.

★

City Of Industry prepares the critic for greatness by describing itself, in the press blurb, as everything from a "post-modern classic *film noir*" to a "mythological journey." Actually it is a long, portentous crime thriller directed by Britain's John Irvin (*Hamburger Hill, Widow's Peak*) from a script by "Ken Solarez": an anagram, or nearly, for producer Evzen Kolar, who must have spent his Czech childhood ignoring Kafka and shuttling culturally between Kurosawa and Mickey Spillane.

The fable about dishonour among rogues *could* have had a Samurai resonance. Before we can draw breath, there are two post-heist dispatches. A brace of jewel robbers are shot dead by their psychotic getaway driver (a bleached-blond Stephen Dorff), leaving the gang's escaping leader Harvey Keitel to live and revenge himself another day. One of the victims was his brother and Keitel, resembling an imploding pit-bull, means business.

Shot through an amber smog worthy of fellow Briton Tony Scott (*Revenge, True Romance*), the film is heavy on *weltschmerz*. This southern California is all bleak refinery chimneys and poverty-row suburbia. But it is effect without *af*-fect, downbeat decor without human dynamic. Nothing but plot convenience explains or fills out Dorff's act(s) of madness. Nothing but a rent-by-the-hour existential moodiness inhabits Keitel or his burgeoning romance with an ex-crony's wife, played by Julia Roberts look-half-alike Famke Janssen.

Elsewhere, nought but silly-season products. You can join Jean-Claude Van Damme and Roger Moore in the "lost city" (country unspecified) of *The Quest*. Here musclemen, Sumo wrestlers and other bulging demigods fight to the finish in a knockout contest whose prize is a golden dragon. Van Damme himself directs, though not in a way that suggests he should give up his day job.

More *mano a mano* mayhem in *Rumble In The Bronx*, where Hong Kong action star Jackie Chan chases villains all over New York's seedier boroughs. This New York looks suspiciously like Kowloon interspliced with a few stock-shots of the World Trade Center and Queensborough Bridge. But Chan is a screen acrobat to savour, if only once.

Preaching To The Perverted is a brave but inchoate British comedy about sexual fetishism. Television's Stuart Urban (*An Ungentlemanly Act, Our Friends In The North*) wrote, produced and directed this tale of whip-wielding madams, bare-buttocked pleasure-seekers and a trio of prudish House of Commons investigators headed by Tom Bell MP. Mildly graphic; occasionally Sapphic; and as integrated and satisfying as a "Carry On" film infected with liberal conscience.

★

Finally, the fondest of farewells to Robert Mitchum. This most nonchalant of movie-stars made acting seem only slightly more difficult than falling off a log, while never falling from his own high eminence as a man of insolent charm and infinite screen presence. A full tribute will appear in the Weekend FT.

UNHOOK THE STARS
Nick Cassavetes

ONE FINE DAY
Michael Hoffman

CITY OF INDUSTRY
John Irvin

THE QUEST
Jean-Claude Van Damme

RUMBLE IN THE BRONX
Stanley Tong

PREACHING TO THE PERVERTED
Stuart Urban

Theatre

Head, heart and viscera

David Hare's *Skylight* is as deserving of praise on its return to the West End after a national tour as on its first viewing two years ago at the National Theatre. It remains a masterly blend of the personal and political, its perceptible flaws far outweighed by its emotional and intellectual vigour.

Bill Nighy has taken over from Michael Gambon as Tom, the enterprising Thatcherite restaurateur who seeks out his ex-mistress a year after the death of his wife. Nighy dominates the stage through the constant movements of his rangy frame, flapping his designer overcoat as if it would envelop the tatty Kensal Rise flat in which he finds himself. He gestures with his entire body, as when, bending with exaggerated assiduity to grate a piece of parmesan, he resembles a grotesque parody of Stalinist dignity-of-labour art. His voice, similarly, is never at rest, a non-stop mêlée of bluster and insecurity; for particular emphasis, he strikes himself ungently on the forehead.

Stella Gonet maximises the humanity of Kyra, Tom's assistant-turned-lover, now teaching in East Ham. Hare apportions things fairly consistently: Kyra gets the finer sentiments, Tom the better lines. This does, though, create the danger that Kyra could sound simply earnest and worthy, without any spark which might have attracted Tom to her all those years ago; Kyra is a woman who – in what could be a stroke of characterisation but is more likely over-writing – even in her most heartfelt moments, will still say "in which" or "at what" rather than end a clause with a preposition.

Despite her outbreaks of ideological soundness, Gonet succeeds in keeping Kyra down-to-earth, occasionally too sardonic either for Tom or his 18-year-old son Edward (Theo Fraser Steele), whose appearances book-end the play's evening-night-morning sequence of events. Although Nighy's Tom is more magnetic, Gonet's Kyra manages to hold her own against him as they spar interchangeably about the state of the nation and of one another.

It is the expertise with which Hare plaits these strands that gives *Skylight* its power. His individuals are more than simple emblems of acquisitiveness and altruism, and he refuses to load the dice in favour of Kyra. We end up identifying with neither in terms of ideology, but feeling sympathy for each on a human level. Head, heart and viscera are all engaged; one cannot ask much more of theatre.

Ian Shuttleworth

Vaudeville Theatre, London WC2 (0171-836 9987).

Ballet/Clement Crisp

Caught up in a splendid spider's web

A very special Royal Ballet School performance this year. The festivities – on Tuesday night at the Royal Opera House – were to mark the golden jubilee of the RBS as a full-time educational establishment at Barons Court. They were also to pay a tribute of love and gratitude to Dame Ninette de Valois as she enters her hundredth year. And how good to record that Dame Ninette was there, watching the performance from the stalls circle.

The evening brought its customary pleasures of young artists starting on their careers. Some were making very first steps: the sparks from the Lower School snapping through Hornpipe, Square Dance, Clog Dance and Irish Jig (which was Dame Ninette's introduction to dancing as a child in County Wicklow, and very featly done this year by three bright-footed youngsters). Senior students were very well-mannered in the Ashton quartet from *Swan Lake*, in *Coppélia*'s Betrothal Dance and MacMillan's Garland Dance from *Beauty*. These are the classical heritage on which the company's identity rests, and artists from the Royal and Birmingham Royal troupes were there to show extracts from *Giselle* (Leanne Benjamin and Bruce Sansom), *Swan Lake* (Monica Zamora and Kevin O'Hare), *Coppélia* (Susan Lucas and Sergiu Poboreznic) and *Sleeping Beauty* (Darcey Bussell and four cavaliers in the Rose adagio), with students as a fine attendant corps.

The heart of the programme was a new ballet made by David Bintley for the school. As score he has chosen Roussel's *Le Festin de l'araignée*. It is magical, evocative music. The setting is a summer garden in the south. The theme is a spider's quest for lunch. Bintley's version is brilliantly conceived, both as a vehicle for young dancers and as a witty up-dating of the story in terms more *Tom and Jerry* than not. For this he has chosen a no less witty designer, Ruari Murchison. Against the towering presence of a gigantic wicker garden-chair, we see a garden's population: wasps as intrepid Biggles-type flyers; *japonaiserie* caterpillars who are three little maids from school; a cloud of shimmering mayflies; a legion of the school's tiniest as black-helmeted and probably crypto-fascist ants – with the jolliest matchbox cart and a partly-eaten apple as trophy.

The young dancers have tremendous fun, and Bintley has judged to a nicety their skills and stage potential. At the heart of the piece is the spider, taken with irresistible physical aplomb by Jerry Douglas. Young Douglas has temperament, and he sinks himself utterly into the role's menacing crouchings – the threat more comic than not, but done with integrity. (The production of a napkin, knife and fork as he thinks that lunch is nigh is splendidly jokey.) His final come-uppance when crushed by a falling cigarette packet (*De Valois – blondes*, of course) and his eventual repast bring this happy work to happiest conclusion. It is far too good to be lost. It is, I fear, too astutely made for the students to be possible for a mature cast. I wish it could be filmed – now. To David Bintley, to Ruari Murchison, to each and every young dancer in the cast, all thanks. The school's jubilee, Dame Ninette's centenary and her life's work, could not have a better, more touching commemoration.

And to close the evening, Peter Wright arranged a skilful défilé of the school, of teachers past and present, of directors, to the *Yevgeny Onegin* polonaise. A spotlight caught Dame Ninette acknowledging our cheers, with a young student standing at her side. That is what it is all about.

The performance was sponsored by P&O. The Royal Ballet School will perform in Holland Park from July 15 to July 19.

INTERNATIONAL

ARTS GUIDE

■ BAD KISSINGEN

CONCERTS
Kissinger Summer Festival
Tel: 49-971807110
● Tenor Peter Schreier and pianist András Schiff perform music by Schubert; at the Kurtheater, Jul 3
● Vladimir Válek conducts the Czech Philharmonic in works by Smetana, Prokofiev and Dvorák; at the Regentenbau, Jul 4 ● Panocha Quartet: with András Schiff in works by Dvorák; at the Tattersall, Jul 5
● Royal Philharmonic Orchestra: conducted by Thomas Sanderling in works by Haydn, Dvorák and Brahms; at the Regentenbau, Jul 5
● Violinist Christian Tetzlaff and pianist Leif Ove Andsnes perform works by Beethoven, Ravel and Debussy; at the Kleiner Kursaal, Jul 5
● Royal Philharmonic Orchestra: in works by Beethoven, Britten and Haydn, with piano soloist Barry Douglas; at the Regentenbau, Jul 6
● Roberto Abbado conducts the Munich Radio Orchestra in a programme of arias, with soprano Gabriela Benácková and tenor Alfredo Portilla; at the Regentenbau, Jul 9

■ CHELTENHAM

CONCERTS
Cheltenham Festival
Tel: 44-1242-227979
● BBC Philharmonic: conducted by Vassily in Sinaisky in Brahms' Symphony No. 1 in C minor, a new work by John Buller and Tchaikovsky's first Piano Concerto, with pianist Boris Berezovsky; at the Town Hall, Jul 5
● RNCM Wind Orchestra: conducted by Tim Reynish in works by Mendelssohn, Sallinen, Strauss and Mozart; at the Town Hall, Jul 6

OPERA
● La Bohéme: by Puccini, performed by the European Chamber Opera; at the Everyman Theatre, Jul 8, 9
● Die Fledermaus: by J Strauss, sung in English by the European Chamber Opera; at the Everyman Theatre, Jul 10

■ DROTTNINGHOLM

OPERA
Drottningholms Slottsteater
Tel: 46-8-4570600
Euridice: artistic director Per-Erik Ohrn has chosen two of the first operas ever written for his first year at the festival's helm. Jacopo Peri's opera dates from 1600 and this is its Swedish premiere. Produced by Karl Dunér, and designed by Peder Freiij, the Drottningholm Theatre Orchestra is conducted by Jakob Lindberg; Jul 5, 8, 9

■ GRAZ

CONCERTS
Styriarte Festival
Tel: 43-316-825000
● Die Quintette: the Wiener Streichsextett plays string quintets by Brahms and Schubert; at the Schloss Eggenberg, Jul 3
● Lamento: the "Red Byrd" vocal ensemble performs a programme around Monteverdi's *Lamento d'Arianna;* Schloss Eggenberg, Jul 6
● Nikolaus Harnoncourt, star of his home town's festival, conducts the Chamber Orchestra of Europe in the complete Brahms symphonies, presented as a cycle for the first time, as the Beethoven and Schubert symphonies have been presented here in the past. Symphonies 1 and 2 are performed on 4th and 8th; 3 and 4 on 7th and 10th; from Jul 4 to Jul 10; at the Stefaniensaal

■ LONDON

CONCERTS
City of London Festival
Tel: 44-171-638-8891
● Great Salzburg Mass: one of the grandest Baroque religious works, now attributed to Heinrich Biber. Performed by the Gabrieli Consort and Players conducted by Paul McCreesh, with Musica Antiqua from Cologne; at St. Paul's Cathedral, Jul 3

Royal Opera House
Tel: 44-171-3044000
Simon Boccanegra (1857): British stage premiere of this, the original version of Verdi's opera. Mark Elder conducts, Ian Judge directs. Sergei Leiferkus, Plácido Domingo and Kallen Esperian star; Jul 4, 8, 10

DANCE
Royal Opera House
Tel: 44-171-3044000
The Royal Ballet: mixed programme includes Twyla Tharp's Push Comes to Shove, William Forsythe's Steptext, and Symphony in C, choreographed by Balanchine to music by Bizet. The final performance will be the last ballet at Covent Garden before the theatre closes for renovation; Jul 5, 9

EXHIBITIONS
National Gallery
Tel: 44-171-8393321
Seurat and The Bathers: places Seurat's great "Bathers at Asnières" in a context provided by his own earlier work, and studies and drawings for the painting, as well as works by predecessors who influenced him, and by his Impressionist contemporaries; to Sep 28

■ NEW YORK

CONCERTS
Lincoln Center Festival 97 Tel: 1-212-875-5030
● New York Philharmonic at the Avery Fisher Hall. Conducted by Kurt Masur in the first of three programmes celebrating the music of jazz maestro Ornette Coleman, whose octet Prime Time joins the orchestra in a performance of *Skies of America;* Jul 8, 9
● Ornette Coleman: with Charlie Haden and Billy Higgins plus guests, at the Avery Fisher Hall; Jul 10

EXHIBITIONS
Metropolitan Museum of Art
Tel: 1-212-879 5500
● The Glory of Byzantium: exhibition celebrating the Second Golden Age of Byzantine civilization from mid-9th to mid-13th centuries; to Jul 6

■ SANTA FE

OPERA
Santa Fe Opera
Tel: 1-505-9865900
● Cosi Fan Tutte: Kenneth Montgomery conducts Mozart's opera, sung in English, in a new production directed by Nicolette Molnar and designed by Bruno Schwengl; Jul 4
● La Traviata: Linda Brovsky directs this new production of Verdi's opera, set in the Parisian demimonde. Patricia Racette is Violetta, Raymond Very is Alfredo, William Stone is Germont. Until July 9 the conductor is John Crosby, when Christopher Larkin takes over; Jul 3, 5, 9

■ SCHLESWIG-HOLSTEIN

CONCERTS
Music Festival
Tel: 49-431-567080
● NDR-Sinfonieorchester: opening concert of works by Schoenberg and Mahler conducted by Herbert Blomstedt; with soprano Karan Armstrong; at the Musik- und Kongresshalle, Lübeck; Jul 5, 6
● The Camerata Academica Salzburg performs a programme of works by Mozart and Schubert, conducted by Jordi Savall; at the Schloss, Kiel; Jul 7, 8

OPERA
Moses and Aron: by Schoenberg. Co-production between Oper Leipzig and the NationalTheater Weimar, in a staging by George Tabori, with sets by Gottfried Pilz. Matteo de Monti is Moses, Hans Aschenbach is Aron. George Alexander Albrecht conducts the Gewandhausorchester Leipzig; at the Staatsoper, Hamburg; Jul 9

■ TANGLEWOOD

CONCERTS
Tanglewood Festival
Tel: 1-617-931 2000
● Zdenek Macal conducts the Boston Symphony Orchestra in works by Brahms and Mozart, with piano soloist Garrick Ohlsson and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed; Jul 5
● Boston Symphony Orchestra: conducted by Seiji Ozawa and John Williams in a programme of works by Rouse, Barber and Copeland, with violinist Gil Shaham and the Tanglewood Festival Chorus conducted by John Oliver; at the Shed; Jul 6

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Personal View • Stephen Roach

Angst in global village

Workers worldwide are reacting against harsh corporate restructuring and economic austerity

The policies of austerity are on their way out. That's the message of the political upheaval of the 1990s that has shaken the US, Japan, Canada, Britain and – most recently – France. In all cases, the electoral revolt has its roots in the angst of hard-pressed workers. Voters are rebelling against two over-arching forces: corporate restructuring and the anti-inflationary zeal behind monetary and fiscal austerity.

Reeling from the impact of these forces, workers are demanding relief. Until now, elected leaders have done little to assuage their concerns. But that could well be about to change. If it does, it could seriously disrupt world financial markets.

The restructuring dynamic was inevitable. As regulation gave way to deregulation and privatisation, and cross-border trade and foreign direct investment took off, the net result was an extraordinary increase in global competition. The demise of communism and the resulting entry of nearly 2bn inhabitants from China and the former Soviet Union into the free-market system has upped the competitive ante all the more.

In response, once-bloated corporate bureaucracies are being disbanded, setting in motion a process of global rationalisation. The resulting wave of corporate restructuring has stretched the fabric of the social contract that had long held in check the power struggle between workers, managers and elected politicians. The worker has lost out.

At the same time, policymakers have taken dead aim at inflation. After the "great inflation" of the 1970s and early 1980s, monetary and fiscal discipline became the mantra of the past decade. In 1997, it is tempting to declare victory.

Inflation has receded to its lowest rate in a generation, not only in the US, Japan and Germany, but also in such countries as Brazil, Italy, and China – countries long noted for extremely high inflation.

Such success has not come without cost. Courtesy of the new-found religion of monetary and fiscal restraint, price stability has gone hand in hand with decidedly sub-par economic growth. The worker has again lost out.

Restructuring and austerity are powerful enough in themselves to have had a profound impact on the economy and on financial markets. But the combination of these two forces may well be the defining factor of a new tension in the global economy.

Workers who have been displaced – or frightened – by corporate restructuring have not seen their fortunes improved by sluggish growth. This has given rise to a new class of victims, the structurally unemployed who have little hope of regaining their former standard of living. But survivors are also concerned about their lagging rewards, or fearful that they may be next to suffer a downsizing.

No nation in the industrial world has been spared from these developments. In countries with rigid labour markets, the result has been soaring unemployment, as in Germany, or massive under-employment, as in Japan. In nations with more flexible labour markets such as the US there has been a stagnation of real wages and a dramatic worsening in the equality of income distribution.

Restructuring has stretched the fabric of the social contract that had held in check the struggle between workers, managers and politicians

I have long been a believer in what might be called the Newtonian principles of macro change: that every powerful trend creates an equally powerful counter-trend. Hence, I now worry about the possibility of a worker backlash that would see economic power shift from capital back to labour.

For the moment, the hard-pressed American worker has been mollified by cyclical revival. But the US is still ripe for backlash. Business profits are surging and the rate of return on corporate capital is at a 29-year high, yet real wages have been virtually stagnant for nearly 15 years. Labour is surely on the verge of clamouring for a larger slice of the pie.

For the moment, the backlash has been manifested in demands for job security. The perils of downsizing and outsourcing have moved to the top of the agenda in several recent US collective-bargaining disputes.

By contrast, European workers have drawn a line in the sand. Here as well concerns are focused on job security. This is also true of recent outbreaks of worker unrest in South Korea and Argentina. But whether the backlash shows up in the form of real wage increases or resistance to layoffs and outsourcing, the ultimate macro impact is largely the same: businesses will no longer have carte blanche to pursue the aggressive cost-cutting that has helped them boost profit margins. As the ability to contain labour costs recedes, the rewards to capital will begin to sag.

For the time being, complacent investors are ignoring the omens. Their reaction is understandable, as the twin forces of restructuring and policy austerity have created an extraordinarily positive climate for financial markets. Investors have been rewarded beyond their wildest dreams.

In the US, corporate restructuring has been a big element in boosting equity prices. And policy austerity has led to a sustained disinflation that has reduced interest rates and prompted a rise in the bond markets. This outstanding performance in the financial markets has become increasingly global. The assumption that European companies will restructure has driven European equity markets higher over the past year.

But this investor paradise will be at risk if the Newtonian counter-trend begins to play out. Central banks, such as those of Japan and Germany, are attempting to ease the pain of austerity by providing excess liquidity through keeping real short-term interest rates artificially low. Given a generally sluggish growth climate in the world's leading industrial economies, this has frothed up financial markets all the more.

The day will come, however, when the medicine starts to work and real economic revival will begin to absorb this excess liquidity. As interest rates rise in response, the liquidity pump can only slow. And that's when frothy financial markets will face their sternest test.

But if the monetary policy remedy does not work, the onus of resolution could shift from central banks to populist and opportunistic politicians. Measured policy responses may give way to the far more destructive "remedies" of protectionism and reflationary fiscal and monetary policies.

Like it not, the angst of the worker challenges the very foundations of this glorious bull market. Little wonder that investors have been steadfast in their denial of even the slightest possibility of the ascendancy of labour. Trapped in their comfort zones, few will see it coming.

The author is chief economist and director of global economics at Morgan Stanley.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Poverty must be overcome if battle against drugs to be won

From Dame Margaret Anstee.

Sir, Your editorial "The drugs war" (June 27) makes some very valid points, particularly that the costs are largely borne by the producer countries through corruption and creeping militarisation. A further aspect that needs emphasis is that drug production in countries like Bolivia is fundamentally a problem of poverty. Coca growers have been driven to the lowlands by the desperately poor conditions on the *altiplano*, in many parts of which subsistence agriculture is no longer viable. It is also a problem of the market: so long as there is demand there will be supply.

From this perspective there are, in my opinion, three possible courses: an immediate and massive reduction of drug consumption worldwide; international legalisation; and to greatly increase investment and development assistance in viable highland areas and to stimulate settlement in other lowland areas not conducive to coca growing. The first is manifestly unlikely at the present time (the first and only global conference on reduction of demand for drugs, organised jointly by the UN and the UK in 1990, was useful in drawing attention to the responsibility of consumer countries but had little practical effect). As to the second, your editorial makes the point that legalisation in any broad sense is fraught with dangers.

The third course offers the most feasible way forward but international co-operation in the drug field focuses on so-called "alternative development", concentrated in the areas of coca production. Vast sums are spent on seeking other means of livelihood *in situ* for the coca producers and paying them to exterminate their coca crops but this can never succeed without action on the wider front. First there is the difficulty of finding alternative products that can command the same price as coca. Second, even supposing this were possible, the net result would simply be to entice more people down from the *altiplano* to grow coca, in the confident expectation that they will be paid to desist.

Unfortunately, the kind of broad development co-operation I have in mind is unfashionable and funds are increasingly hard to come by. It would also be long-term in its effects. But it would tackle one side of the problem and, if there could also be some more effective efforts to reduce demand in the consumer countries, then we might make some real progress.

Margaret Anstee,
(former UN under-secretary general and co-ordinator of all UN drug-related programmes 1987-90),
Villa Margarita,
San Pedro de Tiquina,
Lake Titicaca,
Bolivia

Flights limit is only sure noise cap

From Mr Dermot Cox.

Sir, It is disappointing that your Business Travel page reprints the British Airports Authority line on its proposed "noise cap" at Heathrow Airport without any critical examination ("Heathrow puts a lid on noise", June 23). The noise topic will be one of the most intensely argued sections at the Terminal 5 inquiry.

We are presenting evidence that, far from noise improving at Heathrow after the past 10 years, the disturbance experienced by some 1m people has increased broadly in parallel with the 50 per cent increase in flight numbers.

The methodology used by the Civil Aviation Authority to assess noise is based on social surveys conducted 15 years ago, since when the numbers of flights and types of aircraft have changed significantly, while the index used has also been changed.

These measurements no longer have any contact with or relevance to the impact of aircraft noise on real people. BAA's noise cap using this system is worthless as a guarantee that a fifth terminal – which would itself be larger than Charles de Gaulle or Schiphol airports – would not make an intolerable noise climate far worse. The only cap which can guarantee a limit on noise at Heathrow is a cap on flight numbers.

Dermot Cox,
chairman, Heathrow Association for the Control of Aircraft Noise,
PO Box 339,
Richmond, Surrey, UK

Non-executives would remove concerns

From Mr C. Nigel Thompson.

Sir, Both in your editorial, "Kick the weed" (June 23), and accompanying commentary, "When the smoke clears", you raise two important concerns. First that the settlement by the tobacco companies will eliminate litigation, which is the chief instrument of pressure for ensuring that the companies comply, behave and cut consumption.

Second, that their profits will ultimately grow with the removal of the threat of litigation and the cuts in marketing expense.

The answer to these concerns is for Congress to demand in return for its agreement, that a non-executive chairman be appointed to each company, to look after not only the interests of the shareholders, but also society.

C. Nigel Thompson,
103 Lawrence Drive,
Berkeley Heights,
N.J. 07922, US

A proven discipline

From Mr Erik Rees.

Sir, I was very concerned by Lucy Kellaway's article regarding graphology ("Jobs for the primary school boys and girls", June 23). Whatever one company does or does not do has absolutely no bearing on a discipline that is entirely proven and validated when practised professionally and correctly.

Handwriting is instigated in the brain by a motor activity and produced by the nervous system. It is therefore speech and body-language on paper.

An analysis takes a minimum of four to five hours to complete and sometimes can take a day or two, depending on circumstances. It takes three to four years to become sufficiently expert to be a professional and most European practitioners are also qualified psychologists.

Erik Rees,
chairman, British Institute of Graphologists,
55 Whitton Avenue East,
Greenford,
Middlesex UB6 0QB, UK

A humble Canute

From Mr Peter Stevens.

Sir, Chris Patten's appraisal of Britain's role in the development of Hong Kong is excellent ("The Empire ends here", June 28/29).

But he got it wrong about poor old King Canute. History judges him harshly: it seems everyone really believes that Canute was just the stupid man who tried to turn back the waves. But I was always taught that in fact Canute humbly demonstrated the limits of his power by showing his courtiers that he *couldn't* turn back the sea.

Will history judge Mr Patten equally wrongly? I hope not.

Peter Stevens,
Simon van Leeuwenstraat 30, 5652 SG,
Eindhoven,
The Netherlands

Character-building stuff

Lucy Kellaway meets the man who believes emotional intelligence is the best way forward for companies

In Brazil, Spain, Taiwan, Italy and all over Latin America they are buying it, reading it and loving it. Mr Daniel Goleman's book, *Emotional Intelligence*, first published in the US two years ago, has become a bestseller all over the world. Managers everywhere seem unable to resist the central thesis: if you want to succeed in life you should stop worrying about your IQ and cultivate your emotional intelligence instead.

Other writers and publishers are desperately trying to grab a piece of Mr Goleman's success. In Japan, a dozen clone books with the words "emotional intelligence" in the title have been published in the past year alone. In the UK, *Executive EQ, Emotional Intelligence in Business*, was published in May featuring an almost identical cover.

But Mr Goleman is taking his time over his own sequel. Aimed specifically at the business market, it will explain what emotional intelligence means in practice for employees, teams and for organisations.

On the face of it, the international enthusiasm for emotional intelligence is odd. The thesis is nothing new. We have always known that emotional intelligence – previously known as character or disposition – was essential in determining success.

The runaway popularity of his idea has surprised no one more than Mr Goleman himself. A journalist, psychologist and a former academic, he had no idea that his book – part scientific exposition and part self-help – would touch such an international nerve.

"I've been shocked and amazed," he says as he takes a sip of his tea at a London hotel shortly before giving a speech on communication to a conference organised by British Telecommunications' BT Forum.

At first sight, Mr Goleman appears to be in possession of an old-fashioned high IQ, with beard and glasses and boffin manner. He seems more like the Harvard lecturer he once was than the star performer on the management lecture circuit he is becoming. Yet, as you talk to him he is easy, smiling, modest and responsive – suggesting that he might have above-average emotional intelligence, too.

His explanation is that people everywhere are under increasing pressure at work, facing rapid change and cut-throat competition.

"Given that background, how we handle our emotions is increasingly important." This might sound like a mixture of platitude and cliche. Companies have long been aware that interpersonal skills are vital, and management experts have been pushing the "softer" skills for well over a decade. Yet according to Mr Goleman, what sets his approach apart is its underpinning in neuroscience – he explains what we knew already by reference to the brain chemistry.

Mr Goleman believes that most businesses' commitment to the softer or emotional side is, in any case, pretty shallow. In an attempt to convince them that emotional intelligence really matters to a company's financial success he is sifting through an awesome volume of evidence. "Most business books are based on the softest data – anecdote and whim. I'm trying to raise the level."

Goleman: shocked and amazed by his success

He argues that the data will be hard for companies to ignore. "It shows that our ability to think clearly and to make decisions depends on emotional skills both individually and collectively. How can we learn together if we can't get along together?" In other words, you cannot have a learning organisation unless you have an emotionally intelligent one first.

Mr Goleman is studying the "competency modelling" undertaken by large multinationals in which they pinpoint the skills needed for each managerial job. "In every model I have seen, the emotional intelligence domain is twice as important as the technical one," he says.

Mr Goleman is also trying to quantify how much difference these emotional skills can make to profitability. He quotes one study done on sales staff in which the top 10 – all of whom have high emotional intelligence – bring in 120 per cent more revenue than average ones.

Given that emotional intelligence matters, what can companies do about it? The first step, says Mr Goleman, is to hire emotionally intelligent people.

This is not as easy as it sounds. There is no simple paper and pencil test to tell if people have the qualities. Neither is asking them any good. "If you ask people if they are empathetic they either lie or simply don't know. You need honest feedback from someone who knows them well." While it is not easy, some companies already hire in this way.

Training people in the emotional skills – self-awareness, self-motivation, empathy and so on – is also difficult. He agrees that most of the communications and soft skills training done by companies is a waste of time. "There's a lot of garbage out there," Mr Goleman says. "Most training is based on the wrong part of the brain – the cognitive part." Yet he strongly believes that we can all become more emotionally intelligent, and rejects any idea that we are stuck with a set of characteristics for life. Trying to change behaviour takes time – training must be tailor-made for the individual and requires motivation and support.

"This is more like rugby. You can't teach it in the classroom," he says.

The kind of training he has in mind is expensive, but Mr Goleman thinks he can prove even to the most sceptical that it is worth it. He insists that executive coaching, for example, which is a good way of teaching these emotional skills, usually pays for itself handsomely.

In addition to training, companies must also make sure their culture does not squash these precious emotional skills. That means making sure that employees are not too stressed. "Companies must understand about balancing stress and life. They must see that stress makes people stupid. If you are preoccupied it diminishes your cognitive capacity."

Despite, or perhaps because of, his success Mr Goleman does not feel at all proprietorial about emotional intelligence. He shrugs off the imitators and points out that he did not coin the phrase himself. "It was developed by two psychologists at Yale in a obscure journal that nobody read but me."

Mr Goleman himself was starting to look a little stressed. He glanced at his watch and said it was time to go. Time to introduce a group of businesspeople at the BT Forum to "Emotional Intelligence Framework Competencies". Not a catchy concept. But given its pedigree it could well catch on.

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FINANCIAL TIMES
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Kohl's hard line on Emu

The decision by Mr Helmut Kohl, Germany's chancellor, to *endorse the strictest possible* interpretation of the Maastricht treaty's criteria for fiscal deficits is revealing and disturbing. This unreasonable insistence that deficits should be 3.0 per cent or less reveals a worrying attitude towards Emu and a disturbing lack of confidence in its prospective partners.

Mr Kohl's decision to insist that the general government borrowing requirement must be 3 per cent or less before Germany or any other country may join Emu is a response to pressure from Mr Edmund Stoiber, the Bavarian premier and a leading figure in the Christian Social Union, an essential member of the governing coalition.

The demand reflects worries that the euro will not be as strong as the D-Mark. Over the long term, inflation in the euro may indeed prove higher than it has in the D-Mark. Yet few can seriously believe that Emu will be less stable in the decades to come because Germany, or any other country, happens to have a fiscal deficit slightly over 3 per cent in 1997.

The adoption of an intrinsically irrational position is a signal. The German government may be indicating its anxiety about taking the step to the single currency; it may be doing its best to assuage the concerns of its own citizenry; it may be establishing the toughest possible defence against early membership of countries it regards with suspicion, notably Italy; and it may be telling future members of Emu that it intends to insist on the narrowest possible interpretation of every agreement, including the stability pact finalised in Amsterdam. All these interpretations doubtless have an element of truth.

What this position means is that trouble lies ahead. If the German government does not take action to deliver the fiscal outcome on which it now insists, its support for Emu will be revealed as hypocritical. If it does take action, it will be warning the new French government that it needs to do the same, which will set up a conflict between the terms on which Mr Lionel Jospin won the parliamentary elections and Germany's terms for Emu.

Germany's narrow interpretation of the treaty is not supported by the text, which is more permissive. Insistence on the narrowest application of the fiscal criteria will bedevil the subsequent operation of Emu, since France, for one, does not share these views.

The German position on how Emu should start and operate reflects its lack of trust in its partners. The question is whether such suspicion is compatible with a long and happy monetary marriage.

The GE model

GE Capital, the financial services arm of General Electric of the US, has gobbled up Leucadia National, a sizeable New York-based car insurer in the US, a vehicle rental business, TLS, in the UK and a pair of car leasing and consumer credit businesses in Switzerland. Already this voraciously acquisitive arm of GE provides nearly 40 per cent of group earnings. At this rate of growth it will soon be half. And the bigger it becomes, the greater the question mark over the strategy of the world's biggest company in terms of market capitalisation.

GE's peculiarity is that it has been fixed in a conglomerate time warp while the rest of the corporate world is hooked on focus. Alongside financial services it operates 11 disparate businesses ranging from aircraft engines to a media empire.

The impressive feature of this unfashionable managerial approach is that it appears to have worked. In running its portfolio of businesses, GE has for some years done rather better than the average mutual fund manager. Under the charismatic leadership of Mr Jack Welch, the company appears to retain a genuine parenting advantage in dealing with its subsidiaries. Yet it is becoming harder to see how the parent can add value at GE Capital, as it expands under the leadership of Mr Gary Wendt.

GE itself attributes its consistently successful performance partly to an open culture which places heavy emphasis on sharing ideas within the group and fostering continuous learning. To this has now been added an obsessive preoccupation with quality.

But the shared learning opportunities between jet engines and financial services appear less significant than those between, say, jet engines, turbines and locomotives. Quality in financial products tends to have an entirely different connotation. What matters in banking, to give a crude example, is not continuous enhancement of lending quality to keep the customer happy, but the soundness of the judgment of the lending banker. As for GE's triple-A credit rating, it is no help to the equally creditworthy financial subsidiary.

That is not to say that GE's culture offers nothing in financial services. Yet all the signs are that GE Capital's competitive advantage derives chiefly from within. As long as the messianic Mr Welch is in charge, the managerial model seems likely to be honed rather than changed. But when he goes, or the GE stock market rating takes a tumble, pressures will mount for a parting of the ways.

Sofia's choice

These are brave times for a would-be emerging market to talk of fixing its exchange rate. With the Czech Republic recently forced into adjusting its exchange rate peg, and Thailand floating the baht yesterday, fixed exchange rates have lost much of their allure for developing country reformers.

Not so Bulgaria, which this week joined the select group of countries to throw away the keys to monetary policy by launching a currency board. As of this Tuesday the value of the lev is fixed at 1,000 to the D-Mark, and the central bank is banned from printing money not backed by an equivalent amount of foreign reserves.

Contracting out domestic monetary policy to the Bundesbank – particularly when the bulk of Bulgarian trade is contracted in dollars – holds long-term risks. Ideally, the government would not want to tie its hands so completely in the face of future external shocks and the very real possibility of overvaluation. But seven years, and seven corrupt governments, since the collapse of the Berlin Wall, Bulgaria is about as far from an ideal starting point as a transition country could be.

When the pro-market Union of Democratic Forces replaced the ex-Communists in February, monthly inflation was nearly 250 per cent and roughly a third of the country's banks had collapsed. The UDF, confirmed in office in April, gambled that the short-term credibility benefits of accepting the International Monetary Fund's demand for a currency board were worth the long-term risks.

So far the gamble has paid off. The promise of a fixed exchange rate – and the tight monetary and fiscal policies also mandated by the IMF – have brought monthly inflation down to about 5½ per cent a month. Interest rates have fallen below 10 per cent from a high of above 200 per cent. With such a large share of the budget taken up with debt servicing, that alone will make it much easier to curb public borrowing, which was 12 per cent of GDP last year.

Yet the government has more to do if it is to put Bulgaria on the road to stability. Rebuilding confidence in the banking system will be critical, as will privatisation (by the end of last year less than 10 per cent of state enterprise assets had been sold off).

Mr Ivan Kostov, the prime minister, has talked often of these things since taking office, without providing many detailed plans for how these structural changes are to be carried out. After years of reform failure, there are plenty of sceptics who doubt he ever will. Mr Kostov must prove them wrong.

UK BUDGET LEADER, PAGE 8

Tarnished triumph

Political scandals and a failure to control public spending could undermine the social agenda of Brazil's president, says **Geoff Dyer**

At first sight, this might seem like a time to pop champagne corks for Mr Fernando Henrique Cardoso, the former sociology professor and one-time political exile who was elected president of Brazil in 1994.

This week, Mr Cardoso's economic stabilisation programme, known as the Real plan, commemorates its third anniversary. Inflation – the root cause of so much of Brazil's political and economic turmoil over the past three decades – is at its lowest level in 40 years, down to below 7 per cent compared with 2,560 per cent in 1993. Growth has been steady, if unspectacular.

In a sign of international confidence in Brazil's new-look economy, the eighth-largest in the world, foreign investment has been flooding in at record levels. The stock market has risen nearly 80 per cent this year. Last month, the government was able to issue a $3bn global bond with a 30-year maturity, when three years ago the country was hard-pressed to sell even short-term paper in international markets.

So confident are some Brazil-watchers they are dusting off old prophecies that the country will finally realise its vast potential and play its long-desired role as the economic powerhouse of Latin America.

Mr Cardoso is also seen by *many as the best chance Brazil* has had in years to reduce its notorious social inequalities. "The Real plan is the most important social programme in decades because of the powerful distribution of income to the poor it has created," says Mr Murillo de Aragão, a political analyst in Brasília.

On the political front too, Mr Cardoso has notched up some significant victories. Last month, *Congress approved a bill allowing* him to be the first president in Brazil's history to stand for re-election. As the tamer of inflation and with no strong opposition candidate in sight, Mr Cardoso is already a firm favourite to win a second four-year term in next year's presidential elections.

But in spite of such successes Mr Cardoso is far from in celebratory mood. Recent disagreements and recriminations *between the various members of* the president's disparate coalition have virtually halted reform. And his own poll rating, while still high, has fallen 15 percentage points since April.

The wave of optimism that swept the country in January, after the first of four Congressional votes in favour of the re-election bill, has all but disappeared. Doubters are beginning to ask whether the fragility of *Brazil's political institutions* will lead to the unravelling of economic achievements.

This sense of malaise may appear difficult to square with Mr Cardoso's undoubted economic achievements. But his image of invulnerability has been dented by a series of factors, not least of which has been a series of demonstrations against the government by extra-parliamentary groups. The biggest of these was organised by the movement representing millions of landless farm labourers. There were also large – and at times violent – protests against the privatisation in May of Companhia Vale do Rio Doce, the big *iron ore conglomerate*.

These high-profile rallies have turned attention away from Mr Cardoso's economic achievements and on to the country's social failings, such as the grossly unequal distribution of land, enduring poverty and high levels of unemployment.

Such social issues are particularly sensitive for Mr Cardoso, a Marxist turned social democrat. The president still bridles at criti*cism from erstwhile leftwing* friends that he is now the pilot of a "neo-liberal" political programme of privatisations and budget cuts: a Margaret Thatcher in a tweed jacket.

Scandal, rarely absent from Brazilian political life, has also played a part in tarnishing Mr Cardoso's image. The president had a reputation for incorruptibility. But this was dented when a Brazilian newspaper published *taped conversations linking one* of his ministers to allegations that several deputies were paid for voting in favour of the re-election bill.

The evidence against Mr Sérgio Motta, the communications minister in question, was flimsy. The political impact was anything but. As well as being the chief political fixer in Mr Cardoso's cabinet, Mr Motta is an old São Paulo friend of the president and the two share a countryside retreat. Any slur on Mr Motta reflects on his boss.

The main cause of Mr Cardoso's political weakness, however, has been the snail-like progress of two other vital constitu*tional amendments, both aimed* at cutting public spending. More than two years after the government first presented Congress with bills to reform the civil service and the social security system, they are still a long way from being approved.

Yet these reforms are crucial to the long-term success of the Real plan, named after the new currency. The government's main political and economic achieve*ment, reducing inflation, will be* put at risk and a possible financial crisis ensue if it cannot rein in the budget deficit. This was an unsustainable 6 per cent of gross domestic product last year.

"Right from the start we always recognised that the fundamental challenge for any serious economic plan was to reduce fiscal spending and growth in the public sector," admits Mr Pedro Malan, Brazil's finance minister.

The reforms are essential to Mr Cardoso's political strategy. He had hoped that, with the fiscal situation under control, his putative second term would be characterised by strong growth and measures to reduce social inequalities. Yet, without swift progress on the reforms, he would have to fight the same budgetary battles that have bogged down his first term in office and held back growth. Time is running out. Although voters do not go to the polls until October 1998, political energy is already being concentrated on building alliances for the election rather than on legislative matters.

In an attempt to regain the ini*tiative, the government has* called a special session of Congress this month, when members usually enjoy a winter break, to vote on the reforms. "This is probably the last chance for civil service reform this side of the election," says Mr Ricardo Petira, a political analyst with Santafé Idéias in Brasília.

It was precisely this Congressional deadlock that the re-election amendment was sup*posed to break. The continuity* that the bill encourages marks a sharp contrast with recent political history in Brazil. Merely by staying in office until the end of his four-year term, Mr Cardoso would be the first democratically elected president to last this long since 1960.

None of the three other presidents since the end of military rule in 1985 has been able to exert lasting authority. Both Mr *José Sarney and Mr Itamar* Franco were vice-presidential candidates who inherited the top job by default. Mr Fernando Collor de Mello was impeached for corruption. The succession of weak presidents gave members of Congress more freedom to pursue their own agendas.

Now that Mr Cardoso has won the right to seek re-election, deputies have the incentive to toe the government line in the expectation of possibly five-and-a-half more years of political patronage. This has helped the government make progress on several important areas of legislation this year, including bills paving the way for the privatisation of the telecoms sector and the liberalisation of the oil industry.

The stalemate has continued, however, on the constitutional reforms needed to control public spending: these require a three-fifths majority in four separate votes. The Congressional impasse has turned the spotlight on to the weaknesses of the political system as a whole, prompting calls from some quarters for a political shake-up beyond allowing a president to stand for two terms.

"The system places too much importance on the president," says Mr Winston Fritsch, chief executive of Kleinwort Benson in Brazil. "If he is strong, then the government can achieve things. But if his popularity drops, the government can quickly lose momentum."

Party discipline is weak. In the lower house, there are representatives from 16 different political parties, the biggest of which has only a fifth of the seats. Deputies *are elected* by a *complex system* organised at state level. Their loyalty often lies with powerful local interest groups or state governors, rather than their political party or electors.

Although Mr Cardoso's coalition can theoretically count on the support of 405 of the 513 deputies, his government has consistently been unable to muster the 308 votes needed for constitutional amendments.

The task has been made harder by a dedicated band of opportunists. One of the deputies involved in the vote-buying scandal has changed party nine times in the past 16 years. The scandal, with allegations of deputies extracting huge cash payments in return for their support for the re-election bill, has encapsulated the essence of Brazil's *political ills*.

In an attempt to break the deadlock, several leading government figures have proposed a special session of Congress in 1999 to revise the constitution. Amendments, they suggest, would need only a simple majority to pass. Mr Cardoso has so far played down this suggestion, in part because it would be an acknowledgement that no more progress was expected this year on the reforms. *Critics also say* that, even if the "revisor" Congress managed to push through the necessary fiscal reforms, the underlying weaknesses of the political system would remain.

There is no shortage of notions about the content of any political reform. They include ideas to strengthen party discipline and reduce the influence of small political parties. But without a concerted effort from the leader*ship, the ideas will get nowhere.*

This leaves Mr Cardoso with a conundrum. He has postponed explicit measures to address social pressures arising from poverty and wealth inequalities in order to secure economic reform – which is still incomplete. If he decides to seek deep reforms to end the factionalism that plagues the political system, progress on social issues may once again be the casualty.

"The battles will be different in the second term," says Mr de Aragão. "But the social agenda could end up taking second place again behind all the other reforms."

· OBSERVER ·

Keeping a balance

■ Ed Jenkins, new chairman of the US Financial Accounting Standards Board, has some diplomatic fences to mend as he moves into the board's offices, improbably sited in the breezy old port town of Norwalk, 50 miles north of New York.

The former bigwig with *accountants Arthur Andersen*, who won the profession's respect with his leadership of the eponymous Jenkins Committee on the future of financial reporting, arrives in the wake of a row which dominated the last months of his predecessor Dennis Beresford's term.

The normally mild-mannered Beresford launched a series of attacks on the ambitions of Sir Bryan Carsberg, the former UK competition regulator who heads the international body trying to get the world's leading stock markets to accept international accounting standards for foreign listings.

Things got quite heated in the rarefied world of accounting. At one point, New York Stock Exchange vice-president James Cochrane said FASB was a loose cannon until a successor was appointed and bluntly suggested that in the meantime the lunatics were running the asylum.

Early signals are that Jenkins will make peace with Sir Bryan. If so, that might just bring a little closer the day that 4,000 of the world's biggest companies will be able to list anywhere with the same set of accounts.

Choice meat

■ The International Corporate Governance Network is trying hard to sell the "Anglo-Saxon *concepts" of shareholder value*, investor rights and directors' responsibilities to the French – it's holding its annual talkfest in Paris. But alongside the usual request on the registration form for delegates to indicate if they're vegetarians or vegans, there's a box to tick for those who don't want to eat beef. Hardly a move likely to please BSE-sensitive Brits.

Plane fury

■ There's a lot less cosiness between Italy's troubled state airline Alitalia and airport *operator Aeroporti di Roma* since one of the former's regular crises forced it to sell its controlling stake in the latter a couple of years ago.

The pilot of one recent Turin-Rome flight was cheesed off when no bus was sent to ferry his passengers to the terminal at Rome's Fiumicino airport – even when empty buses were driving straight past the plane.

He told passengers – by this time grumbling mightily about typical airport inefficiency – that Alitalia had enough problems without "sabotage" and "backstabbing" by the airport monopolist – then called in the police to free his trapped payload. The airport authorities managed to find a spare bus just in time to stop the *carabinieri using flight AZ1416 as a hijack* liberation exercise.

Slapped wrist

■ The international community has landed a fleabite penalty on one of the leaders of the Bosnian Serb war machine, underlining its inability to do anything substantial. The Organisation for Security and Co-operation in Europe has barred former Bosnian Serb leader Radovan Karadzic from voting in Bosnian local elections.

The international war crimes tribunal in The Hague would *love to lay hands on Karadzic*, but he's living unmolested in Pale, near Sarajevo. The same goes for former Bosnian Serb military commander Ratko Mladic, who's getting ever bolder in his travels.

Soon after US secretary of state Madeleine Albright went to Belgrade to lecture Serbia on its responsibility under the Dayton agreement to hand over war criminals, Mladic spent two days in the Serbian capital for his son's wedding – not hard for the Serbian authorities to find. Official sources say it wasn't an isolated visit.

Pearly gates

■ Computer nerds fed up with endless "preview" versions of *Microsoft software, are telling a* joke about how the company's founder Bill Gates might fare in the hereafter.

An angel offers him the choice between heaven and hell. Researching the lower option first, he is astonished and delighted to find a tropical beach, waving palm trees, blue skies, turquoise seas and scantily clad maidens serving tropical cocktails to interesting people – popes, kings, dictators – in their hammocks. Never a man to make a rash choice, he makes a flying visit to heaven, but everyone's just sitting about on clouds strumming harps. "Thanks," says Bill to the angel. "I'll go to hell."

Back at the lower level a team of devils grabs him, throws him into a dank, dark dungeon and strings him up by his ankles to rot. "Hey!" he protests. "This isn't what I was shown!" The devils retort: "What do you expect? You only saw the demo."

Financial Times

100 years ago

A Rebuff In China
Peking, 1st July. Mr Colquhoun and Herr Detring, the agents of the Anglo-German syndicate, have returned to Europe without succeeding in their efforts to obtain a concession for the working of railways and mines in China. On being informed that his applications to the Inspector-General of Railways and Mines had been rejected, Herr Detring denounced Sheng, the Director-General of Railways, and Weng-tung-ho of the Finance Department. The charges brought by him against the officials were, however, ridiculed by the Chinese Foreign Office.

50 years ago

Paris Talks Fail
Paris, 2nd July. The aid for Europe Conference "ended in failure" tonight. This was after M. Molotov, Soviet Foreign Minister, warned Britain and France against the "consequences" of their proposal for a European economic programme, circles close to the talks stated. M. Molotov said the Anglo-French proposal for action on the Marshall aid plan would divide Europe and create "new difficulties".

FINANCIAL TIMES
Thursday July 3 1997

Brussels row over state aid for SGS-Thomson

By Emma Tucker in Brussels

A European Commission proposal to refuse Ecu18m ($20.34m) of aid to SGS-Thomson, one of Europe's most successful semiconductor manufacturers, has been blocked by Mrs Edith Cresson, the European research commissioner.

The move by the former French prime minister is a setback to attempts by Mr Karel Van Miert, the competition commissioner, to crack down on what he sees as illegal state aid.

It is unclear whether SGS-Thomson will be allowed to receive the funding, but the company's Mr Enrico Villa said he saw the absence of a decision as a good sign, and was optimistic the Commission would reflect on his company's position.

The commissioners' confrontation was at a highly charged Commission meeting, during which Mrs Cresson called for a rethink of the way state aid rules were applied to research and development funding.

Mr Van Miert said the Italian government's aid to help SGS-Thomson develop integrated circuits was to fund commercial activities that the high-technology company – partly owned by the French and Italian governments – would have funded anyway.

Motorola, the US consumer electronics company, is understood to have complained to Mr Van Miert about the aid intended for SGS-Thomson.

Edith Cresson: calling for rethink over state aid rules

Mr Van Miert failed by one vote to win the support of a majority of commissioners after Mr Yves-Thibault de Silguy, the other French commissioner, Mrs Emma Bonino, one of the two Italian commissioners, and Mr Martin Bangemann, the German industry commissioner, backed Mrs Cresson.

The confrontation suggests that prolonged battles lie ahead over pending cases involving companies such as Philips and Oce of the Netherlands and Germany's Siemens.

In the Philips case, the Commission is under pressure from the Dutch government to approve an ongoing subsidy which amounts to Ecu300m. The aid is for research into liquid crystal displays and medical instruments.

The meeting highlighted the ideological rift in the Commission between those who favour a generous interpretation of the state aid rules and those who have a stricter approach.

The interventionist-minded Mrs Cresson, a former French industry minister, argued that European governments ought to be allowed to support the research efforts of their companies to maintain competitiveness against US companies which, she says, are "inundated" with government aid.

But Mr Van Miert, who rejected a suggestion by Mrs Cresson to pay half the aid, is worried about the effect a steady increase in the amount of state aid to manufacturing industry is having on competition.

He has targeted research and development, pointing out that member states are disguising state aid by labelling it R&D. According to state aid rules, some aid can pay for industrial research but it must be confined to the development of a prototype and not to its adaptation for commercial use. SGS-Thomson's aid proposal described 58 new products, many of which are on the market.

Paris looks at business tax rise

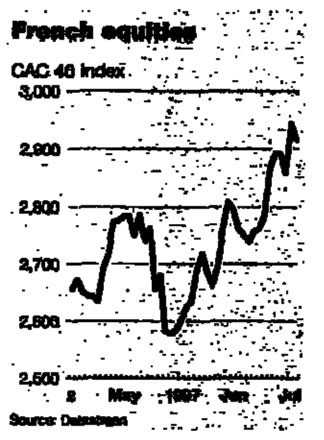
Continued from Page 1

2 per cent during the day. The index closed down 1.1 per cent at 2,909.

Mr Lionel Jospin, the prime minister, has fought with his European Union partners for more emphasis on unemployment, but has repeatedly stressed his commitment to France reducing its deficit and meeting the economic and monetary union targets.

The government's latest indications suggest the budget deficit this year is likely to be more than 3.4 per cent because of lower than expected receipts from value added tax and other sources, and a rising unemployment benefits bill.

In addition Mr Jospin last month unveiled measures including a 4 per cent rise in the minimum wage and an increase in schooling allowances, arguing that they should boost consumer spending and raise growth to 3 per cent by the end of the year.



Mr Dominique Strauss-Kahn, the economics, finance and industry minister, told the National Assembly finance commission yesterday that there would be neither an explosion in spending nor an austerity plan. His comments come ahead of an audit of the state of public finances ordered by Mr Jospin, due on July 21.

However, Mr Philippe Auberger, a senior centre-right politician, dismissed the audit as purely "political".

In a fresh sign of the financial troubles facing the government, the economics ministry yesterday issued a statement estimating that the ultimate losses incurred by the state's rescue plan for Crédit Lyonnais, the nationalised bank, would be over FFr100bn ($17bn) – more than twice the level approved by the European competition authorities.

Many economists believe the growing deficit gap will force the government to push ahead with a programme of privatisations, including France Telecom, in spite of its pre-election pledges.

Cinven buys health interests for $1.8bn

Continued from Page 1

win a French trophy asset.

ABN Amro Corporate Investments is co-underwriting £60m of the equity in the French transaction, and Générale des Eaux will retain 20 per cent of the French company. A syndicate led by Bankers Trust and Société Générale is providing senior debt and mezzanine finance.

French institutions will be invited to take a portion of CGS's equity. Management will receive a 10 per cent stake in the respective businesses.

Both companies are likely to be floated. Mr Rowlands said GHG could be "in shape" within two years but the French company would take longer.

Fuji Bank may issue bonds to cut assets by $17.4bn

By Gillian Tett in Tokyo

Fuji Bank, one of Japan's largest, expects to reduce its assets by Y2,000 ($17.4bn) over the next 10 months to improve its financial strength. In particular, the bank said it was considering turning some of its loans and other assets into international bonds.

The move will fuel expectations that Japanese banks will become large issuers of international bonds over the next year as they seek to restructure their balance sheets.

The initiative comes as Japan prepares to introduce its "Big Bang" financial deregulation, which is expected to leave Japanese banks facing more global competition.

A number of other Japanese banks are also considering ways of trimming their assets – among the largest in the world – to make themselves more attractive to investors.

Last week, Bank of Tokyo Mitsubishi, Japan's top commercial bank, converted Y105bn of loans into securitised bonds in London markets. A securitised or asset-backed bond is debt which is backed by the income stream from collateral, such as mortgage repayments, credit card receivables or loan portfolios.

If this trial is successful, BTM hopes to use securitisation as one way to reduce its assets.

Overall, it plans to reduce its Y60,000bn total risk-weighted assets by between Y1,000bn and Y3,000bn in the next three years.

Fuji Bank yesterday stressed that it did not yet have a clear target for the amount of assets it might convert into bonds. However, it expected that assets would fall by Y2,000bn, from Y52,000bn, by March 1998.

The bank wants to raise its BIS capital adequacy ratio, which measures equity and reserves as a percentage of assets, from the current level of 9.22 per cent to 10 per cent "as soon as possible".

Fuji Bank also plans to increase its return on equity from 3.48 per cent at present to 5 per cent.

Securitisation is likely to be one way to reduce assets, according to the bank, but it is also considering other options. It added that the value of its overseas assets would be trimmed by the recent rebound in the yen.

Although securitisation is only one of a number of means that banks can use to reduce their assets, the issuing of asset-backed bonds is considered attractive by many banks because they can attract a wide range of buyers.

Asia pulls in Western cash, Page 4

THE LEX COLUMN

Conjuring ACT

The UK stock market is, indeed, "bonkers" – as a senior government member told the Financial Times. Abolition of the dividend tax credit received by pension funds should cut the fundamental value of UK shares by about 13 per cent. But, perversely, marketmakers marked equities up after the chancellor of the exchequer confirmed his leaked plans – taking the two-day rise to 3 per cent.

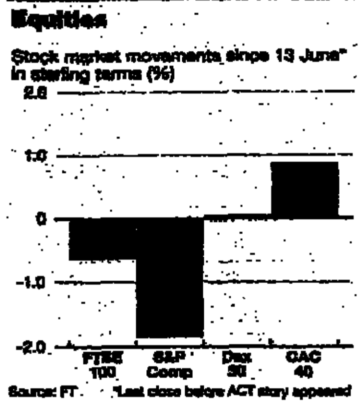
Some of the bad news was arguably already in the market, but not much. Since the first story about the government's plans appeared two weeks ago, UK shares have fallen less than 1 per cent – outperforming the US market in sterling terms and only underperforming German and French equities a touch. Of course, there was a sweetener in the form of 2 percentage points off corporation tax. But this returns to the corporate sector only 35 per cent of what the chancellor is taking by abolishing the pension funds' credit. Subtract the extra tax the government is expecting to extract from companies with anti-avoidance measures and even the sweetener has a bitter taste.

Shareholders might still have consoled themselves if the chancellor's rhetoric about achieving a balanced economic recovery added up to a row of beans. It does not. Only 30 per cent of the tax increases – around £1.2bn next financial year – will fall on consumers. That will do little to stop the current boomlet developing into a fully-fledged boom. Preventing that will therefore fall entirely to the newly independent Bank of England. In itself, that is not necessarily bad. But it does mean that sharp rises in interest rates are probably in store – a message the currency markets have been quick to pick up. However, higher sterling and interest rates are hardly what one would want if one was serious about helping the export sector.

Corporate taxes

Do not believe the guff about a Budget for investment. This is the reverse. A 2 percentage point cut in mainstream corporation tax rate is pitiful compensation for the loss of advance corporation tax (ACT) credits. Not only is cash being sucked out of the corporate sector; the move will increase the cost of capital. This will harm investment, not help it. Nor are Mr Gordon Brown's other goodies much consolation. Take the one-off increase in small companies' capital allowances: it is difficult to imagine a better way of burning £400m of taxpayers' money.

Eurotrack 200 Index
2552.8 (+21.0)



Nevertheless, investors will have to reconcile themselves to the loss of pension funds' tax credits – and adjust their behaviour accordingly. One big change is that yields will logically take a far less prominent role in investors' tool kits, now pension funds have no good reason to prefer dividends over capital gain. Rather than smoothing dividend payments over time – the current practice – companies should pay out any cash they cannot profitably invest. Moreover, by increasing the cost of equity finance, the government has enhanced the tax attractions of debt. Investors should step up pressure on companies to gear themselves to more efficient levels.

Meanwhile, Mr Brown has left one bit of badly unfinished business: ACT itself, which remains although most of its purpose is being abolished. For many companies this will make little difference. But for some – those with substantial foreign earnings – it leads to a completely unjustifiable tax, surplus ACT. Indeed, Mr Brown is worsening their position, removing the ability to avoid the problem through foreign income dividends. The result is not only unjust but a disincentive for internationally-oriented companies to be based and listed in Britain.

Windfall tax

Unfair, unjustified and over. The best that can be said for the windfall tax is that its full extent – £5.2bn ($8.58bn) – is now known and that the chancellor has labelled it a one-off. This should allow utilities to be valued on fundamentals once more, providing investors with some much-prized certainty.

First among the victims is the water sector, which will have to pay £1.65bn, against an estimated £1bn. The £2.1bn levied on electricity companies is roughly as expected, while the rest of the pack escapes rather lightly with a charge of £1.45bn between them. That looks like good news for BAA, British Telecommunications, Railtrack and the gas companies. Centrica should benefit further from the abolition of the gas levy, which could save it £700m-£800m over seven or eight years. Even if two thirds is passed on to consumers, the remainder would boost pre-tax profits by some £250m over the period.

Thailand

Months of government machismo over the Thai baht have been costly. The bill for propping up the baht was evident in the $4bn fall in foreign reserves last month. But the main cost has been for the economy, squeezed by the high interest rates needed to fend off currency speculators. This has exacerbated problems in the property and banking sectors. And while delayed devaluation has given the corporate sector time to hedge substantial offshore loans, high interest rates have meant few could afford to do so.

The stock market's euphoric response to the decision to float the baht was predictable. The government has provided a framework in which interest rates should be substantially cut – even though the initial move was upwards. Lower rates would jump start the economy and ease pressure on troubled banks. The stock market rally is likely to continue, but investors should be selective. Exporters may seem an obvious choice, but imported goods make up a large slice of Thailand's exports. Companies with offshore liabilities will be punished by devaluation. And the banking sector will be hit through an increase in non-performing loans. Moreover, stronger banks may have to bail out the weak.

At least Malaysia and Indonesia have responded more promptly to a similar, albeit less dramatic, set of problems. The Philippines still looks the most vulnerable to Thai fever, given its familiar problems of a surge in overseas borrowing and an overheated property market.

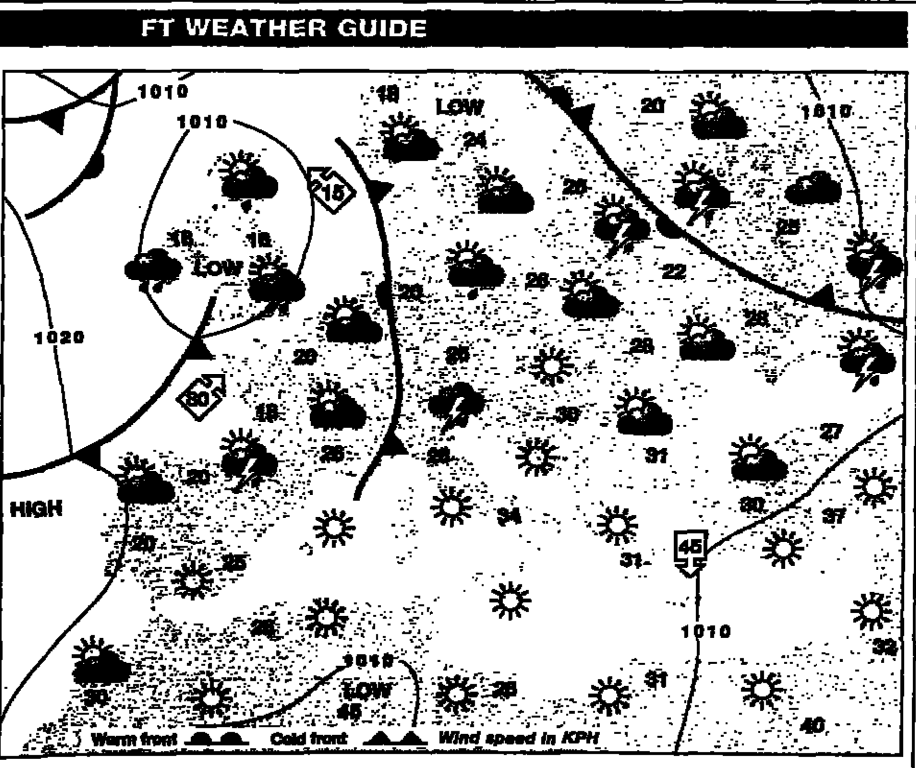
FT WEATHER GUIDE

Europe today

France will have sunny spells but the Alps will be cloudy with downpours. Spain will be dry with frequent sunny periods, except for showers in the north-west. Thunder showers will develop from Austria to the southern tip of Norway. Another line of thunder storms will occur from southern Finland into the Ukraine. Ample sunshine will raise temperatures to just above 30C in the Balkans, Greece and Italy but northern Italy will be cloudy with thunder and rain. Low pressure over the UK will produce another unsettled day with cloud, showers and sunny spells.

Five-day forecast

South-eastern Europe will be sunny. During the weekend, cloud will gather and produce heavy thunder storms. Western Europe will remain changeable but there should be longer dry periods and more sun than in recent days.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius								
Abu Dhabi	sun 40	Caracas	fair 30	Faro	sun 24	Madrid	fair 23	Rangoon	rain 30
Accra	thund 29	Cardiff	rain 15	Frankfurt	shower 23	Majorca	fair 26	Reykjavik	rain 12
Algiers	sun 26	Casablanca	fair 22	Geneva	rain 21	Malta	sun 32	Rio	fair 26
Amsterdam	fair 20	Chicago	fair 25	Gibraltar	fair 26	Manchester	rain 15	Rome	fair 30
Athens	sun 34	Cologne	shower 21	Glasgow	rain 16	Manila	cloudy 35	S. Frsco	sun 23
Atlanta	sun 36	Dakar	fair 30	Hamburg	shower 21	Melbourne	shower 14	Seoul	cloudy 31
B. Aires	fair 11	Dallas	sun 37	Helsinki	thund 27	Mexico City	cloudy 25	Singapore	thund 30
B ham	rain 15	Delhi	sun 38	Hong Kong	shower 27	Miami	thund 33	Stockholm	fair 25
Bangkok	thund 35	Dubai	sun 40	Honolulu	fair 31	Milan	thund 22	Strasbourg	thund 22
Barcelona	fair 23	Dublin	shower 16	Istanbul	fair 28	Montreal	rain 28	Sydney	shower 14
Beijing	fair 32	Dubrovnik	sun 31	Jakarta	fair 32	Moscow	cloudy 25	Tangier	sun 23
Belfast	rain 16	Edinburgh	cloudy 16	Jersey	shower 17	Munich	thund 23	Tel Aviv	sun 32
Belgrade	sun 30			Karachi	sun 35	Nairobi	cloudy 23	Tokyo	fair 30
Berlin	fair 28			Kuwait	sun 45	Naples	sun 31	Toronto	cloudy 27
Bermuda	thund 28			L. Angeles	sun 28	Nassau	thund 32	Vancouver	fair 24
Bogota	cloudy 20			Las Palmas	cloudy 26	New York	thund 28	Venice	shower 26
Bombay	shower 33			Lima	fair 24	Nice	sun 28	Vienna	fair 27
Brussels	fair 19			Lisbon	fair 20	Nicosia	sun 33	Warsaw	cloudy 22
Budapest	sun 29			London	shower 18	Oslo	cloudy 23	Washington	fair 32
C.hagen	cloudy 22			Luxbourg	shower 19	Paris	cloudy 20	Wellington	fair 12
Cairo	sun 35			Lyon	cloudy 21	Perth	shower 16	Winnipeg	fair 17
Cape Town	sun 19			Madeira	cloudy 21	Prague	shower 27	Zurich	shower 20

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FINANCIAL TIMES
COMPANIES & MARKETS
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JCI in $540m option stake in Lonrho

By Ross Tieman

JCI, South Africa's first black-controlled mining group, yesterday entered into a put and call option to acquire 26.7 per cent of Lonrho, the UK conglomerate, for R2.45bn ($540m).

The shares are being sold by Anglo American Corporation, South Africa's biggest company, together with De Beers Consolidated Mines and the Southern Life Association, a South African insurer.

The stake will be used by JCI's chairman, Mr Mzi Khumalo, to re-open talks about a merger or combination of businesses between JCI and Lonrho. Talks were broken off earlier this week by Lonrho.

Lonrho shares closed 30p up at 141½p.

Last night, Mr Khumalo called Mr Nicholas Morrell, Lonrho chief executive, to request that talks be re-opened.

Mr Morrell said later: "We said we would be available to talk to him here in London." Meetings are expected within a fortnight.

Although Anglo controls around 18 per cent of JCI, advisers to JCI said initiative for the deal had come from Mr Khumalo.

Anglo has been ordered by the European Commission to sell its holding in Lonrho within two years to prevent any undue concentration of influence over world platinum supplies. Both Anglo and Lonrho are leading platinum producers.

"I think it is an elegant solution for Anglo," Mr Morrell said.

Anglo said it had "washed its face" on the transaction in rand terms, but faced a loss of around 14 per cent in sterling.

JCI has the right to acquire Anglo's shares at 155p during December, while Anglo has the right to put its stake at the same price.

Companies in this issue

Market Statistics

http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
BMW	1442	+	23
Holzmann	496	+	25
Klockner Wrke	126.7	+	5.9
SAP AG	358.3	+	9.3
Thyssen	430	+	13.5
Falls			
DLW	211	–	8.5
NEW YORK ($)			
Rises			
Compusa	23½	+	2
Donnelly Corp	19	+	2
Times Mirror	33¾	+	2¾
Falls			
Converse Inc	19¾	–	1½
Dal Tile Intl	16⅛	–	1¾
Pioneer Hi	71¾	–	4½
LONDON (Pence)			
Rises			
Amersham	1770	+	67½
Indpndnt Ins	860	+	40
Norbain	210	+	38
Sun Life & Prv	334½	+	28¾
Falls			
Dfly Jenkins	209	–	15½
Partela	225	–	25
TORONTO (C$)			
Rises			
Crestar Engy	27.4	+	2.3
Grad&Walker	13.55	+	2.4
Tel NT	14.25	+	1.15
Falls			
Amtelecom	4.0	–	0.5
Rio Narcea	3.5	–	0.65
Solid State	3.0	–	0.5
PARIS (FFr)			
Rises			
Worms Cie	364.3	+	10.8
Falls			
Banc Comp	759	–	21
Elf Aquitaine	630	–	20
Havas	427.2	–	15.8
St Gobain	852	–	22
Suez	572	–	27
TOKYO (Yen)			
Rises			
Daiei	759	+	21
Kagome	845	+	19
Konica	738	+	25
Falls			
Lng Term Cred	473	–	17
Sakura Bank	637	–	27
Toyo T & B	821	–	26
BANGKOK (Baht)			
Rises			
Goodyear	176.0	+	16.0
Regional Cont	165.0	+	15.0
Siam Sak	352.0	+	32.0
Falls			
Natural Park	4.5	–	0.5
Un Bk of Bkk	94.5	–	10.5
Univentures	18.5	–	2.0

New York and Toronto prices at 12.30pm. Hong Kong closed.

Sun Life and Equity & Law will unite to form £2.7bn group

Axa's UK units to merge

By Christopher Adams in London

Axa, the big insurance group based in France, is to merge its subsidiaries, Sun Life & Provincial and Axa Equity & Law. The deal ends months of speculation over the future of the two companies and creates the UK's third biggest life assurer.

Sun Life, 60 per cent owned by Axa following the French group's acquisition of rival UAP last year, is to pay its parent £690m ($1.14bn) for Equity & Law's life and investment management businesses. Axa will receive 224.8m new shares in Sun Life, the bulk of which will be sold leaving it with a 65 per cent stake.

The price comprises £220m of goodwill, 10 times the value of future profits from new business written in 1996. It also represents a 47 per cent premium to the value of future profits from policies currently in force at Equity & Law.

Sun Life will also acquire Axa's UK general insurance arm for £70m by issuing 22.8m new shares.

Lord Douro, chairman of Sun Life, said the deal was structured so it would be acceptable to minority institutional investors. Shares in Sun Life jumped 28p to 334p while Axa rose FFr1¼ to FFr371½ on the Paris stock exchange.

The deal gives Axa a strong presence in the UK life assurance and pensions market, where new business is growing at around 20 per cent a year. The enlarged group will have £30bn in funds under management and a market value of about £2.7bn based on yesterday's closing prices.

Sun Life admitted the combined operation could lose some business from the independent financial advice market, where both companies have traditionally been strong. Around 14 per cent of their new business came from the same source in 1996.

"There hasn't been a merger of two large IFA companies before and there is a perceived wisdom in some quarters that two plus two does not equal four," said Mr Les Owen, managing director of Sun Life.

But he said the logic of the deal outweighed these concerns. Sun Life has a bigger share of pensions and investment products than Equity & Law, whose own strengths in the mortgage and protection markets would complement that.

In addition, the merger should generate annual savings of more than £37m or 8-10 per cent within three years. About 500 jobs may be lost and Equity & Law's head office will be closed.

Mr Mark Wood, 43-year-old chief executive of Equity & Law, will become chief executive of the new group. Mr Michael Hart, Sun Life chief executive, will retire.

The enlarged company will be structured so shareholders benefit from the cost savings. Axa will also have the right to take preference shares should the government allow it to distribute any surplus from the Equity & Law life fund in excess of the shareholders' existing 10 per cent interest.

Arnault to detail Guinness, GrandMet proposal

By Andrew Jack in Paris and Ross Tieman in London

Mr Bernard Arnault, the chairman of LVMH, the French luxury goods and drinks group, yesterday agreed to provide written details of his alternative plan to the proposed £24bn ($40bn) merger of the British groups Guinness and Grand Metropolitan.

His offer came during a meeting in Paris with his two counterparts, Mr Tony Greener of Guinness and Mr George Bull of GrandMet, which offered little other sign of progress towards any agreement.

The talks, which sources close to LVMH considered a public relations exercise to gain time, lasted just one hour, and ended with both sides describing the discussions as "cordial".

Mr Arnault, who is the largest shareholder in both the UK groups, opposes the planned deal to create GMG Brands, the world's largest spirits and wines group.

He fears that the move could leave LVMH's drinks business exposed, and wants to see the drinks interests of his group merged with those of Guinness and GrandMet, with GrandMet's food businesses spun off. His idea is to create a single quoted drinks business, in which he would hold a significant stake.

The talks – the first held between the three businessmen since the two British groups announced their merger plans in May – appeared in part to have been driven by pressure from Mr Arnaud, who has built up a 6.4 per cent stake in GrandMet in the past few weeks.

He already owns 14 per cent of Guinness, and has been applying a range of measures in an effort to block the deal including launching an arbitration process at the International Chamber of Commerce in Paris.

In London yesterday, GrandMet's shares closed up 12½p at 610p and Guinness's gained 11p to close at 610p.

Albert Caspers, supervisory board chairman for Ford-Werke, and finance director Mael Goeransson yesterday unveiled a 5.5 per cent drop in sales for the Cologne-based subsidiary of the US carmaker. Report, Page 16 Picture: Reuter

AT&T in three-way alliance to link Europe and Latin America

By Robert Graham in Rome and Alan Cane in London

AT&T of the US, Stet of Italy and the pan-European telecommunications partnership Unisource yesterday unveiled plans for strategic alliances designed to strengthen their operations across Europe and in Latin America.

The first step involves co-operation between telecoms providers AT&T and Stet to offer services to large international customers, with the emphasis on the rapidly expanding Latin American market and Europe.

The second is for Stet to join a pan-European joint venture set up by AT&T and Unisource. Stet said it would take a "significant" stake in AT&T-Unisource Communications Services, but refused to put a value on the potential holding.

Mr Guido Rossi, chairman of Stet since January, said he hoped the deal involving AT&T and Unisource could be finalised by the end of the year

Mr John Walter, AT&T's chief operating officer, said the new alliances would markedly accelerate the European joint venture's business plans in Europe. He expected revenues of $2bn in Europe by 2000.

It was clear yesterday, however, that much due diligence would have to be done before the completion of a final accord. On the key issue of whether AT&T would take a direct stake in Stet when it is privatised as Telecom Italia in the autumn, all sides were cautious.

It has been suggested that AT&T would take 3 per cent or more of the Italian group. Although the Treasury has imposed a 3 per cent ceiling on individual holdings, government officials were indicating yesterday that this ceiling might be lifted to 5 per cent.

With Stet agreeing to transfer into AT&T-Unisource the relevant European data and telecoms services of Telemedia International (TMI), some cash could change hands. Unisource is also considering a stake in the privatised Telecom Italia.

Stet is due to merge with its main operating company Telecom Italia on July 18, with a resulting market value of about L67,000bn ($40bn). The talks with AT&T began in earnest four months ago and marked the first important international alliance for the Italian group after a number of unsuccessful attempts with other partners.

The moves are a response to other global alliances and joint ventures between the world's leading telecoms operators.

When Telefónica of Spain defected from the Unisource alliance to Concert, a partnership of British Telecommunications and MCI of the US, this left AT&T with a weakness in Europe which could be solved by the alliance with Stet.

Fujitsu to build Y150bn semiconductor factory

By Michiyo Nakamoto in Tokyo

Fujitsu, one of Japan's leading semiconductor manufacturers, is investing Y150bn ($1.3bn) in a state-of-the art semiconductor factory it will build in Aizu-Wakamatsu in northern Japan.

Fujitsu's decision to build the factory highlights the renewed drive among Japanese electronics companies to expand their semiconductor businesses. NEC has said it will increase production of dynamic random access memory chips by 18 per cent this year. The shift to advanced products is expected to lift the market.

The trend reverses last year's investment cuts by Japanese semiconductor manufacturers in the wake of a plunge in memory chip prices. .The price fall slashed their profits in the last financial year, as they are particularly dependent on memory chips.

Fujitsu's move also reflects the growing momentum behind systems-on-a-chip products, which are believed to be the most promising segment of the semiconductor market.

"This is where the semiconductor business is going to grow," Fujitsu said. The products combine semiconductor memories with logic chips.

The factory, which is scheduled to start operations by 1999, will employ mixed-line production techniques, running memory and logic chips on the same line.

Dataquest, the market researcher, said the investment reflected Fujitsu's aim of taking a lead in the market.

As products such as portable phones became smaller, demand for systems-on-a-chip products was likely to grow strongly, Dataquest added. Semiconductor users were also keen to utilise these units to reduce the number of chips in their products. Fujitsu already has several semiconductor factories in Aizu-Wakamatsu. One produces application specific integrated circuits. Another is a joint venture with AMD, the US semiconductor manufacturer, which makes flash memory chips. A 30-year old facility will be closed next year.

Fujitsu said it had decided to set up the new facility in Japan rather than in a low-cost area because "the fine geometries of 0.18 micron technology will require all new state-of-the art equipment" from Japanese equipment manufacturers. Aizu-Wakamatsu offered the most know-how on small-lot application specific integrated circuit production, it said.

Fujitsu aims to have an initial production capacity of 15,000 units a month, rising to 30,000 by 2002.

Foreign investors return to Wall St

By Richard Waters in New York

European investors overcame some of their scepticism about the historically high valuations of US equities and returned in greater numbers to Wall Street early this year, according to figures released yesterday.

However, these purchases represent only a tiny rebalancing of their exposure to the US stock market after having largely missed out on one of the greatest bull markets ever.

Europeans bought a net $10.5bn of US equities during the first three months of 1997, more than the $6.5bn they bought in the whole of last year, according to the Securities Industry Association.

Foreign investors, who avoided US stocks for most of the 1990s, "may have finally regained their appetite", the SIA said. Most of the demand from abroad came from European-based investors, with Asians selling a net $5.6bn.

The jump in foreign investment has continued, even though many Europeans remain unnerved by the high prices of US stocks, according to Mr Byron Wien, US stock market strategist at Morgan Stanley. "I think they're at the throw-in-the-towel phase – they are participating reluctantly."

Foreign purchases are often seen in Wall Street folklore as a sign that the stock market is close to a peak. However, Mr Jeff Applegate, stock market strategist at Lehman Brothers, said that evidence from past buying or selling by foreigners did not support this.

Despite the increase, foreign cash remains only a small part of the money driving US share prices. US mutual funds poured an average of $3.3bn a week into the market in the first quarter, compared with $500m from foreign investors.

The US bond markets, meanwhile, have continued to rely heavily on investment from abroad, particularly from Japanese institutions. At nearly $80bn, foreign purchases of securities issued by the US Treasury and federally-backed agencies were more than three times those of US commercial banks, the next-biggest group of buyers.

Japanese investors have been attracted by the relatively high yields on US Treasury bonds.

Telekom confirms digital pay-TV deal

By Frederick Stüdemann in Berlin

Deutsche Telekom, the partly privatised telecoms company, yesterday confirmed its part in an agreement with commercial broadcasters for the development of digital pay television in Germany.

The deal is expected to help the company's loss-making cable activities.

It said the agreement reached last week with KirchGroup and CLT-Ufa, Germany's two biggest television companies, guaranteed it would operate the technical platform and administer the conditional access – or decoding – system for digital pay-TV distributed through its cable television network.

Under the terms of the agreement, which still requires official approval, broadcasters will pay Deutsche Telekom an annual fee, thought to start at DM9m ($5.17m) for use of the cable network.

They would also pledge a percentage of revenues.

The agreement between the three companies marks the end of a long battle for dominance in the growing digital pay-TV market. While Deutsche Telekom has secured its position as administrator of the technical aspects, Kirch and CLT-Ufa, which is 40 per cent owned by the media group Bertelsmann, agreed to pool their digital pay-TV interests in Premiere, a pay-channel which uses analogue technology and in which both have stakes.

This tie-up moved ahead yesterday when the board of French operator Canal Plus authorised the sale of its 37.5 per cent interest in Premiere to Kirch.

The French group said financial details would be released within a few days.

Scepticism from within the German cartel office about the deal over Premiere and the agreement with Deutsche Telekom will also need to be overcome. Given the size of the deal, it will be up to the European Commission to clear it, though the German cartel office is able to pass on its opinion.

Deutsche Telekom said the agreement meant the cable network would be accessible without discrimination to all broadcasters.

It also marked a shift away from proprietary systems for the decoding of digitally transmitted signals towards an open uniform standard.

The three companies agreed to use a conditional access system held under licence by Beta Research, a Kirch subsidiary.

Until now the technology had been used solely in a decoder called the "d-box", which Kirch had developed. Deutsche Telekom and CLT-Ufa will each take stakes of 33.3 per cent in Beta Research and the technology will be used in other decoder boxes.

● Veba Telecom, part of the Düsseldorf-based Veba industrial group, said yesterday it had joined forces with Bouygues of France and Stet of Italy to offer fixed-network telephone services in France, writes Ralph Atkins in Bonn.

Veba Telecom will have a 20 per cent stake in BSV, the joint holding company. BSV Residential, the operating subsidiary, plans to invest FFr6bn ($1.02bn) over the next 10 years and forecasts sales rising to more than FFr8bn.

Eurotunnel rescue gets back on track

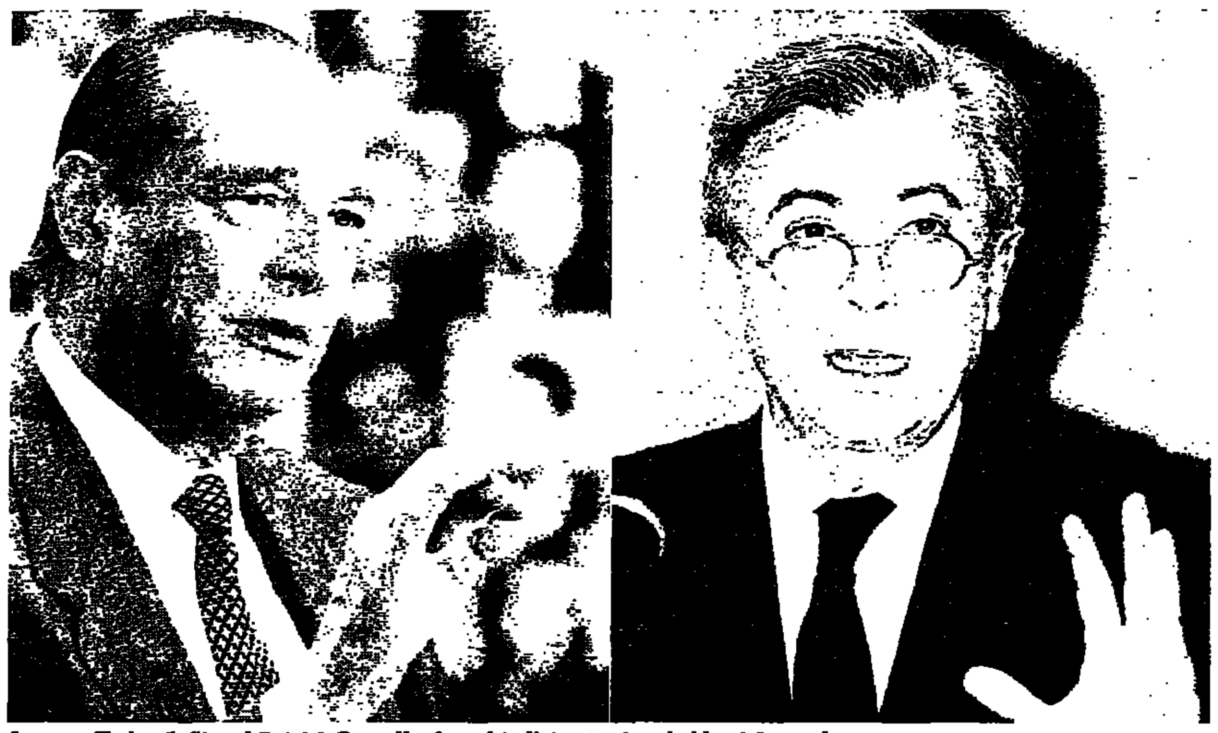
The war may not be over, but Eurotunnel's staff, shareholders and bankers were heaving a collective sigh of relief yesterday in the wake of several notable victories in quick succession in the battle to save the company.

After months of talks, the UK and French governments agreed on Tuesday evening to the principle of extending the length of Eurotunnel's operating concession by at least 34 years after its existing 2052 expiry date, swelling its long-term potential profitability.

That cleared an essential condition for many of the company's shareholders, who were close to gathering a blocking minority ahead of an extraordinary meeting on July 10 that could have killed a £8.5bn ($14bn) restructuring plan with its creditor bankers.

They objected to many details of the plan, which employed a range of financial instruments to extend debt repayments and to dilute existing shareholders down to as little as 39.4 per cent of their capital.

But in the last few days, Northern Cross Investments, a Bermuda-based fund, other investors represented by Ms Sophie L'Hélias, a Paris-based proxy agent, and Mr Christian Cambier, leader of the Association of Eurotunnel Shareholders, have fallen into line and said they will vote in favour of the plan.



Jacques Chriac (left) and Patrick Ponsolle: forced to listen to shareholders' demands Reuter

The response has been a sharp rise in the share price – which closed yesterday up from FFr6.90 to FFr7.45, or nearly 8 per cent.

For some, like Mr Cambier, an extension of the concession was the most important modification required for his members' support for the plan, to boost the long-term value of their shares. According to projections issued by Eurotunnel in May, the change advances from 2005 to 2004 the company's first reported profits. Its effect would be to reduce annual depreciation charges – offset to some extent by increased tax charges.

Mr Patrick Ponsolle, chairman, had long sympathised with the shareholders' demand. Given that most of Eurotunnel's investors are French, France's President Jacques Chirac and both the past and current governments were easily persuaded. Since October 1996, when the outline restructuring agreement was reached with its creditor banks, he has been lobbying to persuade the UK government to follow suit. The election of the Labour government in May helped ease discussions.

For other investors, the situation is more complex. Adacte, a more militant shareholder group, is still advising its members vote against the plan. It continues to express anger at Eurotunnel's management and bankers, and prefers to place its faith in the French bankruptcy courts, which theoretically give shareholders some prospect of a return.

Northern Cross changed its view after it was persuaded by Eurotunnel that the prospects of the banks renegotiating their plan, or of the bankruptcy courts preserving the value of shareholders' investments, was minimal.

For Ms L'Hélias, the decisive factor was in the statement issued by the UK and French governments. In an effort to pressure shareholders into voting for the restructuring, they said they would not oppose the banks' right to "substitution" – or appointing a rival operator in place of Eurotunnel, leaving the investors with nothing.

That removed any final possibility that the creditor banks might have agreed to renegotiate their plan, or have risked dragging the company into an uncertain legal battle with the two governments.

Unless it fails to achieve the necessary quorum of 230m votes on July 10, Eurotunnel will probably win the support of sufficient shareholders for its plan to go ahead. That leaves two questions. First, whether its 174 creditor banks will agree unanimously to support the plan before the end of the year; second, whether there is a risk that after the investor vote, some might instead be tempted to push directly for substitution.

Andrew Jack

EUROPEAN NEWS DIGEST

Sales fall 5.5% at Ford German arm

Ford-Werke, the German subsidiary of the US carmaker, yesterday unveiled a 5.5 per cent drop in sales for the first five months, to DM11.1bn ($6.38bn). Measured in units, sales dropped 9.5 per cent from a year earlier to 456,700 vehicles, representing a domestic market share of 11.1 per cent, the company said ahead of its annual general meeting. Production dropped 11.9 per cent to 394,500 units. Exports made up 65.1 per cent of total sales, up 3.2 percentage points on a year earlier.

Mr William Boddie, chairman, said the company was "confident" of maintaining the 11.3 per cent domestic market share achieved in 1996. The company said it achieved its target of reducing internal costs by 3 per cent of sales in the first five months. However, Mr Boddie said: "Worsening external conditions may mean that the progress made on internal costs are not reflected in our profit situation as much as hoped."

He forecast that the company would have full-year sales of more than 1m units, compared with around 1.113m a year earlier, with a fall of around 10,000 units in the domestic market at least partly offset by higher exports.

AFX News, Cologne

Hamburg sells bank stake

Further restructuring among Germany's public banks is under way with the agreed acquisition by Landesbank Schleswig-Holstein of 49.5 per cent of Hamburgische Landesbank, for DM1.35bn ($776m). The city of Hamburg, which was advised by Goldman Sachs, the US investment bank, will retain 50.5 per cent. It is making the sale to reduce its high budget deficit. The transaction will be back-dated to January.

The deal comes as Bankgesellschaft Berlin – comprising public sector, commercial and mortgage banking interests - is in talks with Norddeutsche Landesbank about a merger that would create the country's second-biggest bank by assets.

Mr Henning Voscherau, Hamburg's mayor, said the Hamburg bank would remain independent, despite the ownership link with Landesbank Schleswig-Holstein, which is based in Kiel and has Westdeutsche Landesbank as an important shareholder, with 39.9 per cent. Landesbank Schleswig-Holstein also has an option on further shares in the Hamburg bank if the city reduces its stake further after 2000.

In addition, Hamburg is "parking" a 25 per cent stake in an electricity utility – Hamburgische Electricitätswerke – with Hamburgische Landesbank, which will pay the city DM1.27bn. The utility holding will later be sold to an industry buyer or on the stock market.

Andrew Fisher, Frankfurt

Merger talk lifts KLM stock

Shares in KLM, the Dutch airline, soared to an all-time high in Amsterdam yesterday as reports that it was in talks to sell its 19 per cent stake in US partner Northwest Airlines rekindled merger speculation. KLM confirmed that the sale of its Northwest shares was one of the options open to it in resolving the partners' long-running feud over KLM's say in the US carrier.

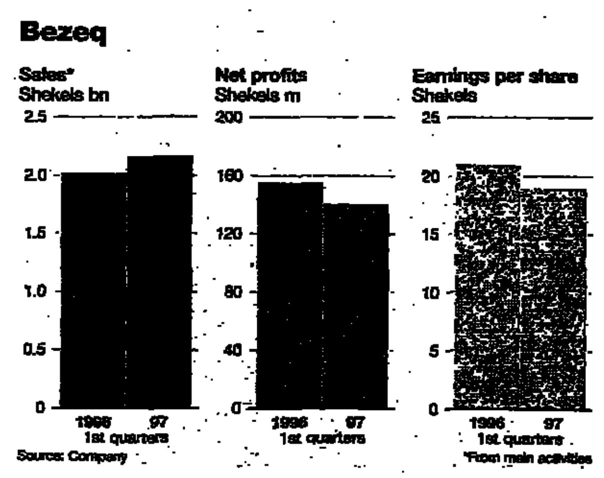
"One of the options is a possible sale of shares to Northwest," KLM said. "How important [an option] it is, we will not comment." But dealers on the Amsterdam bourse said the jump in KLM's share price to a new all-time high of Fl 63.70 was prompted by investor speculation it could be preparing to link with British Airways and American Airlines.

Reuter, Amsterdam

New line for Bezeq chairman

When Mr Ami Erel was appointed chairman of Bezeq, Israel's state-owned telecommunications network, two months ago, it was the first time the government had opted for someone from the private sector.

It may turn out to be a wise choice, as Bezeq's monopoly in international telephone calls comes to an end this week, paving the way for competition and prices which will fall by at least two-thirds.



But Mr Erel, 50, an electronics engineer turned manager of communications companies, remains undaunted by the advent of competition. "We have a good, young team in Bezeq International," he says.

Bezeq International, a subsidiary of the mother company, will compete with Barak, a consortium headed by Sprint, France Telecom and Deutsche Telekom, and Golden Lines, which includes SBC, of the US, Bell and Stet, of Italy.

Mr Erel admits Bezeq will come under pressure: it will lose market share and profitability will be hit. International calls accounted for nearly 30 per cent of Bezeq's revenues, which last year totalled Shk8.2bn ($2.28bn) while net profits totalled Shk658.7m, up 5.2 per cent on the previous year. But he is confident that with good marketing, Bezeq International will hold 50 per cent of the market.

But it is the domestic market to which Mr Erel is turning his attention. Mrs Limor Livnat, communications minister, has pledged to open this market to competition by 1999, but Mr Erel argues that competition already exists.

"There are two cellular networks now operating and the tender for a third has been issued," he says.

The growth of the cellular network since its introduction two years ago has been phenomenal. Israel now has 1.4m cellular lines – compared with the 2.6m fixed lines still owned and monopolised by Bezeq – and mobile phones are estimated to rise to 1.8m when the third operator enters the market. And, unlike consumers in other countries, Israelis carry their cellular telephones with them all the time, giving out the mobile number more often than their fixed line number.

However, there are plans to give Israeli consumers one telephone number, which would work for both fixed and cellular phones. Mr Erel is fighting to ensure the fixed line number – and not the cellular number – will be the one that customers will chose. "We have to make sure that traffic will pass through the fixed line – that is, through Bezeq. It is crucial for positioning ourselves for 1999," he says.

This is where his private sector experience comes in. Mr Erel himself admits that until recently, "Bezeq had no idea how to survive in the market place. Orders were taken. We never went out to attract customers". Bezeq is changing, training sales and marketing staff to approach companies, offer packages – especially in data services in which Bezeq still holds a monopoly – and make sure these clients remain with Bezeq in 1999.

The more aggressive approach is coupled with a restructuring. Some 25 managers out of 150 have been made redundant, and there are plans to cut the 9,000 workforce further. Expenses this year will be slashed by Shk200m, along with an additional Shk200m in other investments.

Such a programme will make Bezeq leaner and fitter for domestic competition. But Mr Erel is also seeking international alliances, such as teaming up with BT/MCI. "In order to allow Bezeq International to compete, we should have international partners," he says. In return, Bezeq could be a stepping stone to other countries in the region.

But before such ambitious plans are realised, Mr Erel is anxious that the government speeds up its privatisation plans for Bezeq. The state is planning to sell a 24 per cent stake, reducing its hold to 52 per cent. The offering is planned for this month, but it is unclear what percentage will be allocated to local and international markets. "It depends on how much the Tel Aviv Stock Exchange can absorb," says Mr Erel.

It may also depend on the outcome of negotiations with Cable and Wireless. The UK telecoms group holds a 10 per cent stake in Bezeq, but has been prevented from increasing that stake because the government is uncertain whether it wants a strategic partner or to rely completely on the market.

Part of the government's problem is that it regards Bezeq as an important element of defence and security. "I think there could be away around this problem," says Mr Erel, adding that he is very anxious that the government, Bezeq and C&W reach agreement. "We have to find a way to live with each other so that we can flourish. We have a lot of work to do."

Judy Dempsey

Holzmann warns of job losses

By Andrew Taylor, Construction Correspondent

Philip Holzmann, Germany's biggest construction company, warned yesterday that it may shed up to 10 per cent of its domestic workforce following continuing falls in German construction output.

The move, which follows a similar level of company job losses last year, came as Mr Lothar Mayer, chief executive, warned that Holzmann was likely to make a further operating loss this year.

The operating deficit, however, was likely to be less than in 1996, when the company only managed to break even following large property disposals.

The group has been struggling to cut overheads and refocus its business following problems with real estate operations and large losses in some of its overseas subsidiaries.

It recently sold its 29.5 per cent stake in Tilbury Douglas, the UK construction construction group, raising £57m ($94m).

Mr Mayer said yesterday that the value of group construction output had risen by 8.5 per cent to DM5bn ($2.9bn) in the first five months of this year compared with the same period last year.

However, new business won by the group had fallen 32 per cent to DM4.1bn on the same period a year ago.

Mr Mayer said: "In Germany construction orders are falling in all areas, in some parts drastically. Public sector coffers are empty, industry is moving production abroad and residential construction is shrinking."

Figures published yesterday by the German economic ministry showed that national construction output during the three months to the end of May was 4 per cent lower than in the previous three months and 8.7 per cent lower than a year ago.

COMPANIES AND FINANCE: THE AMERICAS

US publishers set up internet 'megasite'

By Louise Kehoe in San Francisco

Nine US publishers have joined forces to launch an internet "megasite" combining selected news and commentary from 125 newspapers in an attempt to boost online advertising revenues and attract more readers.

The unusual joint venture by the otherwise rival groups is the latest example of "old media" searching to find a role in new, electronic media.

Transforming newspaper web sites created at the height of internet enthusiasm into profitable businesses has proved difficult. By joining together, the publishers hope to attract more advertising and eventually be able to charge readers web site subscription fees - a move few have so far attempted.

The new web site, to be known as "NewsWorks" *(www.newsworks.com)*, is produced by a consortium that includes Advance Publications, Cox Newspapers, Gannett, Hearst, Knight-Ridder, The New York Times, Times-Mirror, Tribune and The Washington Post.

Together they publish more than 225 US newspapers, but the web site will draw material from 125.

Normally, these groups compete daily to "scoop" each other by breaking news stories in their traditional newspapers and to garner the largest share of advertising revenues.

Their unusual collaboration on the internet was born out of fear of the new medium. The consortium, called New Century Network, was formed in 1995 to help members build their own exclusive online services by establishing technical standards and developing software for billing and tracking readers.

However, as technology developments overtook the newspaper consortium, it switched its attention to the creation of an aggregated news site that would combine news stories and share advertising revenues among member companies.

The NewsWorks web site opened this week with headlines from the handover of Hong Kong to Chinese rule, reflecting the lead story in the vast majority of US newspapers. But – unlike the traditional newsprint products - it drew a selection of stories from the Chicago Tribune, the Washington Post, the Los Angeles Times, Boston Globe, the Miami Herald and others.

The eclectic "editor's choice" of news in NewsWorks' first edition included reports on the tyre industry from The Beacon Journal, women's basketball from The Macon Telegraph and an article about Yosemite from the Modesto Bee.

NewsWorks editorial staff can, in theory, pick the "best of the best" of US newspaper reports. In practice, NCN's editors may have to balance diplomacy with news judgment. As one industry analyst put it: "What happens when the Washington Post gets bumped by a small town newspaper?"

Already, there are signs of dissent within the consortium. The New York Times, for example, although a member of the group, has so far not made its reports available on NewsWorks, preferring to steer online readers to its own established web site.

Further tensions have been raised by the mix of newspaper brand names on the NewsWorks web site. For widely recognised newspapers, there would seem to be little advantage to combining their content with that of lesser known publications.

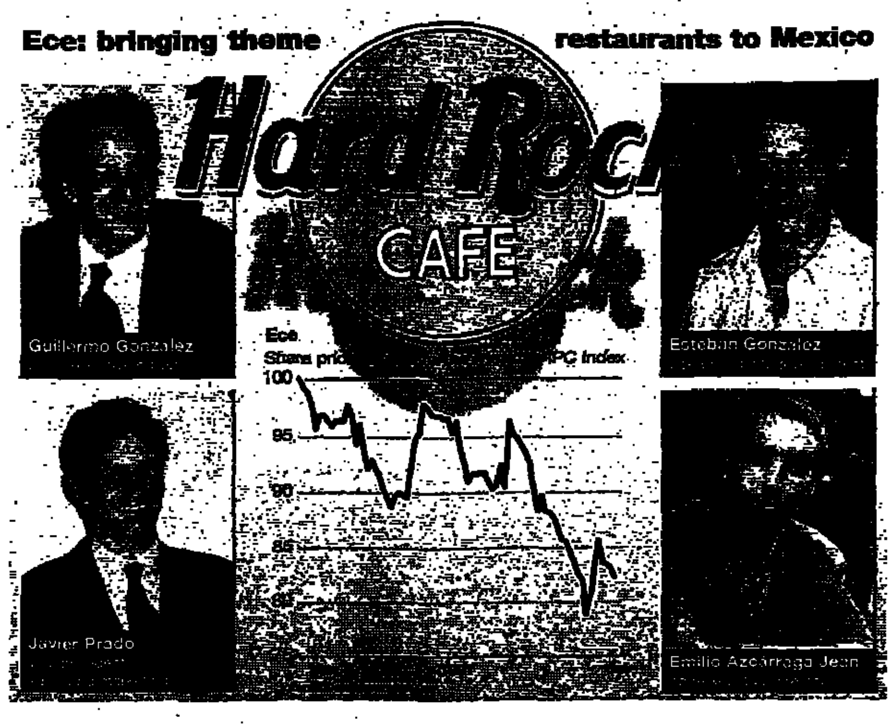
NewsWorks also faces competition. Last week, the Chicago Sun Times launched a web site linked to 69 affiliated local newspapers all owned by Canada's Hollinger International.

The Chicago Newspaper Network's web site *(www.chicago-news.com)* links Hollinger's newspapers "under one umbrella", the publisher said. The bigger challenge facing NewsWorks and all newspapers publishing on the internet is adjusting to the "real time" nature of the internet and its worldwide reach. At nightfall in Boston, there are internet users awakening in many parts of the world looking for next day's news.

Keeping pace with rapid technology developments also remains a problem for newspaper publishers. Although NewsWorks plans to offer a "personalised" news service, enabling each reader to pick topics of personal interest, it does not appear ready to adopt the latest "push" technology that delivers news automatically to computer users' screens.

Ece's tyros have much to prove

Ece: bringing theme restaurants to Mexico



The youngest members of some of Mexico's most illustrious business families are trying to step out of their fathers' shadows.

The tyros are hoping to make their mark through Ece, a theme restaurant operator that has grown rapidly on the back of Mexican tourism, exploiting glamorous franchises such as the Hard Rock Cafe and Planet Hollywood.

The youngsters still have much to prove. Ece's evolution into a bigger, broader entertainment company depends on successfully expanding into large domestic urban markets, instead of relying on the beach resorts where Ece has thrived up to now mainly by attracting American tourists.

But even if the young directors' choice of industry differs from that of their fathers – whose fortunes were built in sectors such as the paper industry, real estate and the media – an old-style reliance on close family and business ties still underpins their approach to developing their company.

Ece started with a career crisis for Mr Guillermo González, the 32-year-old son of Mr Claudio X. González, chief executive of Kimberly-Clark de México. The younger Mr González had been a stockbroker during the mid-1980s, but by 1988 the market had slumped and Mr González's father thought it was time he got a different job.

There is an entrenched tradition in Mexico of fathers handing on control of businesses to their sons. But the boyish Mr González admits: "I'm not really the type who is being prepared to run Kimberly-Clark."

Instead, in 1988, the family joined forces with a venture capital fund to buy the Mexican concession for the Hard Rock Cafe. Mr González senior became the group chairman.

The younger Mr González then turned to his own friends and their families to buy into the venture. One was his old school classmate Mr Miguel Alemán Magnani, whose family has been active in Televisa, Mexico's dominant media company, for three generations; he holds 7 per cent of the shares and a non-executive directorship.

Mr Alemán invited Mr Emilio Azcárraga Jean, now Televisa's 29-year-old chief executive, to join the board in a non-executive capacity; he holds 3.5 per cent. Others include the sales director, Mr Javier Prado, the 34-year-old scion of another big group, Compañía Administratora y Promotora, and Mr González's younger brother Esteban, who is project director.

After several years of limited growth, Ece began to expand quickly. It now operates 13 restaurants, including Hard Rock Cafes, Planet Hollywoods and All Star Cafes, all formats for which it has exclusive franchises throughout Mexico. Sales, which reached 137m pesos ($17.28m) for the first quarter this year, grew by more than 30 per cent in 1995 and 40 per cent in 1996. Operating margins of 25 per cent and above in 1995 and 1996 fuelled further expansion.

A March initial public offering on the Mexican exchange Ece raised 253m pesos for just over 15 per cent of stock. Most of the money raised will go to pay off debt, and the company also hopes to open five restaurants over the next year-and-a-half.

Yet Ece's stock has performed poorly, remaining at its issue price of 11 pesos in spite of a surge in the Mexican market.

One problem has been that, apart from the Hard Rock Cafe in Mexico City, Ece's other restaurants are all based in resorts and aimed at US tourists. Bills can be settled in dollars and, as a result, the peso's recent real appreciation has hurt sales. The hope is that the company's forthcoming restaurants, which will be based in urban areas, will counterbalance this dollar dependence.

Mr González is unsurprised by the share price performance. "Investors see how we have been affected by the peso and there has been little news about some important developments," he says. In May, the group won the concession to operate the country's premier racetrack, in which it and its minority partner Maxxam of Texas will invest $20m. But Ece has failed to spell out its plans for a further $95m investment to develop a hotel, convention centre and auditorium around the track.

The racetrack is widely considered a juicy concession, but the project's size and its lack of similarity with Ece's other operations make it a formidable challenge for the company's youthful staff. The company is still searching for partners to fund the extra investment and possible legal action by the former concession holders may further complicate the track's operations.

The company's focus and its marketing ability will be tested as the expansion gathers pace, providing a real measure of whether the youngsters have the business acumen of their fathers. But if their eye for image building is anything to go by, they may be winners. In 1996, Ece's sales of merchandise, such as baseball caps retailing for 168 pesos, were 225m pesos, compared with only 213m pesos from food and drink sales.

"Get real," says Mr González, who likes a beer and a hamburger when he visits his operations. "This business is not about food. It is about atmosphere."

Daniel Dombey

AMERICAS NEWS DIGEST

Thrift merger set to cost $318m

Washington Mutual, the US thrift, yesterday completed its merger with Great Western Financial and said it expected to report a $318m charge for related expenses. *The merger creates the country's largest savings* institution. Washington Mutual said the charge includes a pre-tax addition of $100m to Great Western's reserve for loan losses.

Washington Mutual said Great Western shareholders would receive 0.9 of a Washington Mutual common share for each Great Western common share.

Mr John Maher, Great Western president and chief executive, and the rest of Great Western's executive management committee will leave the company at the end of July. Three Great Western directors will join the Washington Mutual board.

Based on March 31 figures, the combined bank holding company would have $88.5bn of assets, according to Washington Mutual. *AP-DJ, Seattle*

Tax refund for Phillips

Phillips Petroleum said yesterday it would report an extra $80m in net income for the second quarter of 1997 after resolving all its outstanding issues with the US Internal Revenue Service.

Phillips said it expected to receive $102m in cash refunds from the IRS within 30 days.

The company said the refunds relate mostly to its 70 per cent interest in a liquefied natural gas facility in Kenai, Alaska. The plant produces 1m tons of LNG a year and sells the output to two utility companies in Japan. *Reuter, Bartlesville, Oklahoma*

Pacer in deal with Home Depot

Pacer Technology, owner of branded products such as Super Glue, said yesterday it expected earnings and revenues to grow as a result of its selection as Home Depot exclusive vendor of record for carded adhesives. Pacer said it would supply all carded adhesives to 115 of Home Depot's 512 stores and had the right to supply 500 additional stores that Home Depot plans to add by the year 2000. *Reuter, Rancho Cucamonga, California*

Office Depot merger off

Staples, the US office products superstore chain, and Office Depot formally announced yesterday they had terminated their merger agreement.

The decision followed a federal court ruling earlier this week that upheld a decision by the US competition authorities barring Staples' proposed $4.3bn takeover of Office Depot on grounds that it was anticompetitive. *Agencies, Westborough, Massachusetts*

Moody's downgrades Safeco ratings

Moody's Investors Service *downgraded the ratings of* Safeco Corporation, the US insurer, and its subsidiaries, concluding a review of Safeco's recent announcement of a definitive agreement to acquire American States Financial Corporation and its subsidiaries for about $2.8bn, Reuter reports from New York.

Safeco's Corporation's senior long-term debt was downgraded from Aa3 to A3, and Safeco's Credit Company Inc's Prime-1 rating *for commercial paper, which* is guaranteed by Safeco Corporation, was downgraded from Prime-1 to Prime-2.

Moody's said its rating actions reflected its concerns about the substantially heightened financial and operating leverage at Safeco Corporation that is anticipated in the company's acquisition plan, as well as an increasingly constrained cash flow position at the holding company.

The rating agency noted that the $2.8bn acquisition would result in Safeco Corporation taking on about $1.5bn of goodwill.

The insurance financial strength ratings of the Safeco property-casualty group were downgraded from Aa1 to A1, and the financial strength rating of Safeco's principal life assurance subsidiary was lowered from Aa2 to A1.

Moody's has also assigned an A3 rating to $200m of senior notes of Safeco Corporation, due 2007, and an "a3" rating to $750m of Capital Securities of Safeco Capital Trust I.

COMPANIES AND FINANCE: ASIA-PACIFIC

Hitachi seeks growth in home electronics

By Michiyo Nakamoto in Tokyo

Hitachi, the Japanese integrated electronics and heavy electricals maker, aims to increase consolidated revenues from home electronics and related products by about 20 per cent to Y1,200bn ($10.5bn) in the next four years as part of a business revitalisation plan.

The company, which last year returned an operating profit in its home electronics division for the first time in five years, has targeted the segment where it expects new products to support growth.

The Y1,200bn target includes products that would not normally be included in the home electronics division and is therefore not part of the company's results forecast, Hitachi said. The consolidated results would include subsidiaries such as Hitachi Maxell, which makes tapes and floppy discs.

Hitachi expects the growth in revenues to come from areas such as personal computer peripherals, which are likely to see increased demand in the next few years.

Other products expected to see strong growth are MPEG cameras, which enable users to record digital video as well as still pictures on discs, and incorporate them into PC documents; units which combine the functions of PCs and TVs; displays; and CD-Rom and other multimedia products.

These will form an increasingly large part of the consumer products business, Hitachi said.

Hitachi also expects DVD-related products to support growth in the home electronics division. The Japanese company took a leading role in setting the DVD-Ram standard for recordable DVD, an area where it has particular expertise, it said.

In the year to March, Hitachi's consumer products business generated consolidated sales of Y999bn. The rise was in part fuelled by buoyant demand ahead of the increase in Japan's consumption tax.

In contrast, the group earlier this year cut its semiconductor capacity, with the closure of a plant making 16-megabit dynamic random access memory chips. It said it expected demand for the chips to be sluggish.

Hitachi forecast a rise in group sales this year to Y8,620bn, compared with Y8,523.1bn for the year to March. Profits should improve to Y310bn.

Shiseido's new brand targets Asia

By Gwen Robinson in Tokyo

Shiseido, Japan's leading cosmetics maker, is launching a sales drive to capture a larger share of the expanding Asian middle-class market. The company will in September begin mass-marketing a new line of low-priced cosmetics which will not carry the Shiseido brand name.

The "Za" skin care and make-up brand will be a self-selection brand, available off the shelf in chain stores throughout Asia. In its first year, Za products will be sold at 1,200 outlets in the region, including the rapidly growing markets of Hong Kong, Taiwan and China.

Shiseido last year announced a plan to quadruple overseas net sales to Y200bn ($1.74bn), to account for 25 per cent of total sales, by the year 2000. Of this, the company envisages Y120bn will come from sales expansion in existing businesses.

The remaining Y80bn is to come from new businesses, including brand development in Asia. Za was developed after research into climates, cultures and tastes specific to Asia.

Shiseido has chosen Ms Karen Mok, a Hong Kong actress and singer, as the brand's model for advertising campaigns. "She is becoming increasingly popular on account of her positive lifestyle, and young Asian women identify closely with her," the company explained.

To help its overseas expansion, Shiseido has been boosting manufacturing capacity offshore, with new factories planned or established in France, the US and Taiwan.

Za products will be manufactured mainly in Japan, but also in Taiwan and France. Eventually, Shiseido hopes to expand production in Taiwan, where a second factory is already under construction, and to extend production to other overseas factories.

Shiseido's globalisation strategy has already begun to pay off. The company reported record sales and profits for the year to March: group sales rose nearly 5 per cent to Y588.6bn, while consolidated recurring profit surged 16 per cent to Y41bn.

Overseas sales in the year jumped 28 per cent and now represent 11 per cent of total sales.

Peter Howell-Davies: the Optus chief said the company was likely to continue losing money on pay-TV in Australia Reuter

Mayne Nickless surges on Optus deal

Shares in Mayne Nickless, the Australian transport group which is the largest domestic shareholder in Optus, the Australian telecommunications group, rose more than 4 per cent to A$8.05 as the market welcomed the A$980m (US$738m) restructuring of Optus proposed on Tuesday, writes Bruce Jacques in Sydney.

Under the deal, which involves Cable and Wireless, the UK telecommunications group, doubling its stake to 49 per cent, Mayne will be relieved of two obligations: to underwrite a A$100m Optus incentive deal on cable roll-out, and to purchase A$30m of Optus shares.

The deal is also likely to facilitate the float of Optus within the next two years. Mayne Nickless has been pursuing the Optus float for some time, to release funds to invest in other areas of its business.

But Mr Peter Howell-Davies, Optus chief executive and a former C&W executive, yesterday could not give any timetable for the float.

Mr Howell-Davies said he understood it would take up to eight weeks to receive approvals for the new structure from Australian authorities.

Optus was likely to continue losing money on pay television in Australia, he said, but talks were continuing on rationalisation in the industry.

"It would be wholly unrealistic to expect a move into the black after such a short period of time," he said.

Optus' losses on its offshoot, Optus Vision pay-TV, are understood to be running at about A$300m a year. However, Mr Howell-Davies said cable roll-out had passed the target of 2.1m homes.

Mr Phil Jacobs, Optus chief operating officer, said the company had a strong bargaining position for influencing the outcome of pay television restructuring, given its valuable programming – rights to the Australian Rugby League and Australian Football League.

ASIA-PACIFIC NEWS DIGEST

Fletcher disposals exceed NZ$500m

Fletcher Challenge Forests yesterday confirmed it had received more than NZ$500m (US$340m) through the sales of three New Zealand forests. The company announced last year that it planned to sell the forests, after leading a consortium that bought the former government-owned Forestry Corporation's Central North Island estates for NZ$1.9bn.

Fletcher Challenge Forests said last year it intended to consolidate its New Zealand interests on the Central North Island site, which has been described as the biggest man-made forest in the world. The Fletcher Challenge forests on the east coast of the North Island were sold to Glenealy Plantations, of Malaysia. The forests around South Auckland were sold to Evergreen Forests, a New Zealand-listed public company, and the 51 per cent stake in the South Island forests was bought by Weyerhaeuser, of the US.

Terry Hall, Wellington

Management fees for Ekran

Ekran, the main contractor for the Bakun hydroelectric project in Malaysia, is expected to receive an initial M$400m (US$158m) in management fees, according to analysts. The initial sum would help Ekran take up part of the listing of the Bakun Hydro Electric company. The analysts said Ekran was poised to receive M$1bn in management and maintenance fees, most of which will be paid over five to six years.

Ekran recently undertook a M$1.5bn rights issue, which was 63 per cent undersubscribed, to part-fund its 32 per cent stake in Bakun. Most of the undersubscribed shares were taken up by the underwriters and sold back to Mr Ting Pik Khiing, Ekran chairman. Mr Ting had agreed to take up an additional M$860m of unsubscribed rights, apart from his entitlement of shares worth M$385.5m. This raises the stake held by him from 26.3 per cent to 55.7 per cent.

The Bakun hydro-electric project is expected to be completed by 2003 and make a net profit of M$1.5bn in its first full year of operation.

Asif Huda, Kuala Lumpur

New auction for Food Terminal

The Philippine government said it would hold another auction for its 51 per cent stake in Food Terminal, a 120 hectare agro-industrial complex in Manila. Last week no bidders turned up for the privatisation of Food Terminal, which had been billed as the Philippines' largest privatisation this year. This was the third attempt to privatise the company. Mr Roberto de Ocampo, finance secretary, said the government remained optimistic it could privatise Food Terminal via an auction, which would be pursued within the year.

AFX-Asia, Manila

Ashok Leyland ahead

Ashok Leyland, the Indian truckmaker, lifted net profits for the year to March from Rs1.13bn to Rs1.25bn ($35m) on sales 23 per cent higher at Rs24.9bn. Capital expenditure over the year rose from Rs1.8bn to Rs1.93bn, resulting in higher interest expenses.

Mr R.J. Shahney, managing director, said: "Despite difficult times, the market is receiving the new-technology Cargo trucks well. The company sold 4,752 Cargos in the year to March, which is an increase of 41 per cent over the 3,378 sold in the previous year."

AFX-Asia, Bombay

BG buys 44% of Indian gas distributor

By Robert Corzine in London

BG, the former British Gas, has bought a 44 per cent stake in Gujarat Gas, India's largest natural gas distributor, in a £25.7m ($42.4m) deal.

Mafalal Industries and the Hindustan Oil Exploration company sold the shares, in part because Gujarat Gas needs to embark on a new capital-intensive construction programme in order to expand its business.

Its main asset is a 1,000km pipeline network serving around 300 industrial, 800 commercial and 74,000 residential customers in the state.

The turnover of Gujarat Gas last year was £19m, with net income of £4.2m.

Mr Stephen Brandon, a BG director, said six other bidders were involved in a limited auction for the stake in Gujarat Gas.

The total value of the deal may rise to £37.3m, as BG must conduct a public tender for up to an additional 20 per cent of the company's equity.

BG sees the acquisition as providing a possible market for a liquefied natural gas terminal it is seeking to build in Gujarat.

"The investment in Gujarat Gas creates a major strategic opportunity for BG to link related energy projects in the region and to exploit synergies with our existing investments," Mr Brandon said.

India is a potentially lucrative market for LNG because of fast-rising demand for clean energy to generate electrical power. But doubts about the creditworthiness of possible gas customers has complicated specific projects.

"You need well-established customers to get LNG off the ground," Mr Brandon said. "Power generation is one anchor for an LNG project. Gujarat Gas may be another."

BG is involved in a proposed gas-fired power station to be built at Pipavav, in Gujarat state.

Qatar, where BG has upstream interests, is the most likely source of natural gas for the proposed Gujarat LNG terminal.

BG also has a 50 per cent stake in Mahanagar Gas, which is developing a gas distribution system for Bombay.

● Financing for the Atlantic LNG project in Trinidad and Tobago, in which BG has a 26 per cent stake, was finalised yesterday with agreement on a $600m credit facility.

The financing had proved particularly difficult, in part because the output from the plant is destined for customers in both the US and Europe. Most LNG projects are dedicated to a few customers in a single location.

CONTRACTS & TENDERS

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

Provisional Price for 03.07.1997 | Final Prices for Trading 05.06.1997

1/2 hour period ending	Pool purchase price £/MWh	Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	12.17	14.73	15.02	0.96
0100	12.17	14.52	14.81	0.96
0130	12.17	14.52	14.81	0.96
0200	12.17	14.52	14.81	0.96
0230	12.17	14.52	14.81	0.96
0300	12.17	14.52	14.81	0.96
0330	12.17	14.52	14.81	0.96
0400	12.17	14.52	14.81	0.96
0430	10.66	14.52	14.81	0.96
0500	10.00	11.57	11.86	0.96
0530	10.01	11.58	11.87	0.96
0600	9.50	11.58	11.87	0.96
0630	10.80	11.58	11.87	0.96
0700	16.39	21.93	22.22	0.96
0730	12.31	21.31	21.60	0.96
0800	19.79	22.55	22.84	0.96
0830	18.54	21.83	22.13	0.96
0900	20.02	22.86	23.16	0.96
0930	20.23	31.86	32.16	0.96
1000	20.40	31.87	32.17	0.96
1030	21.71	31.87	32.17	0.96
1100	21.92	22.90	23.21	0.96
1130	34.82	22.94	23.23	0.96
1200	36.03	34.77	35.10	0.96
1230	27.50	34.77	35.10	0.96
1300	27.12	22.98	23.28	0.96
1330	20.35	34.70	35.01	0.96
1400	20.17	22.89	23.22	0.96
1430	20.11	22.89	23.18	0.96
1500	20.04	31.87	32.17	0.96
1530	20.01	31.87	32.17	0.96
1600	20.10	25.39	25.70	0.96
1630	20.34	23.49	23.80	0.96
1700	34.32	49.06	49.40	0.96
1730	34.19	49.07	49.36	0.96
1800	32.69	48.82	49.24	0.96
1830	18.51	23.34	23.64	0.96
1900	18.45	23.34	23.63	0.96
1930	15.45	21.93	22.22	0.96
2000	15.38	20.93	21.22	0.96
2030	12.57	20.39	20.68	0.96
2100	12.31	20.39	20.68	0.96
2130	21.09	24.03	24.32	0.96
2200	21.03	24.03	24.32	0.96
2230	21.09	27.42	27.71	0.96
2300	21.09	27.42	27.71	0.96
2330	12.37	24.03	24.32	0.96
2400	12.04	15.78	16.07	0.96

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.88/MWh becomes 1.688p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreement which governs the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. The Transmission Services Use of System Price (TSP) is charged by the National Grid Company plc (NGC) for the operation and development of its electricity transmission system for the purpose of optimising the costs arising from the operation of that system. Charges are calculated by NGC and are based on payments made by NGC into the Pool. TSP is also capable of revision. Pool Selling Price is the price paid by purchasers of [illegible]

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Disposal follows first-half loss owing to problems at Segaworld theme park

Burford buys Trocadero complex

By Virginia Marsh

Trocadero, the struggling leisure group, yesterday sold its main asset, the landmark London complex of the same name, to Burford Holdings less than two years after taking it over from the property company in a demerger.

Trocadero warned it would report a first half trading loss because of difficulties at Segaworld, the interactive theme park in which it has a 50 per cent stake. Full-year results would be affected by delays in opening two attractions at the Trocadero Centre.

The shares, which floated at 34p (56 cents) in November 1995 and peaked at 79p last August, fell 2p to 28p. Shares in Burford fell ½p to 127½p.

Burford's chairman and chief executive hold the same posts at Trocadero. Mr Nick Leslau, the chief executive of both, insisted, the demerger had not been a failure. Circumstances at Trocadero had changed as Segaworld, a joint project operated by Sega of Japan, had failed to generate the expected earnings.

Managing Trocadero as a hybrid property and leisure company while running Burford had proved difficult.

"It was naive to think I could run both and it is a fair criticism that we should have anticipated this," said Mr Leslau who will leave Trocadero when a replacement is found.

The complex in the capital's Piccadilly Circus, comprises the London Pavilion as well as the Trocadero, which features shops, amusement arcades and the Planet Hollywood restaurant. In the demerger, the properties were valued at about £150m ($240m), and the new Trocadero company subsequently invested £35m in them. Burford had bought the two properties in 1994 and 1995 for £110m.

Burford, which has a 25 per cent stake in Trocadero, is buying the buildings back for up to £213m, with an immediate cash payment of £120.3m.

The settlement of inter-company debt would account for a further £39.5m, with the balance, conditional on rental levels, to be paid over the next two years. The sale will leave Trocadero with £73m cash to develop its intellectual property rights business based, at present, on the children's books characters of Enid Blyton.

Mr Leslau said the removal of interest costs would cover the £9m in annual rental income Trocadero was losing. Trocadero would lease back from Burford about 30 per cent of the 450,000 sq ft being sold.

Analysts were disappointed Burford, which has been one of the most highly rated property groups, was making the buy. The properties, which yield 7 per cent, will account for more than a quarter of its portfolio.

Mr Nigel Wray intends to remain chairman of both companies. He holds 6.3 per cent of Burford and 5 per cent of Trocadero. Mr Leslau holds close to 1 per cent in both companies.

Lydia van der Meer

John Anderson, property director, (left), with Nick Leslau

Bunzl to acquire AFC for $178m

By Charis Gresser

Bunzl, the UK paper and packaging group, yesterday announced plans to acquire AFC, an American plastics and fibre business, for $178m.

Both groups were founded by members of the Bunzl family, which fled Vienna at the outbreak of the second world war. Trusts representing members of the American branch of the family own 46 per cent of AFC shares. The trustees have signed letters of commitment to vote for the acquisition. The UK branch of the family no longer has a significant holding in Bunzl.

The proposed acquisition was welcomed by analysts. They described the price as "cheap", the strategy as "sensible" and said it would enhance Bunzl earnings this year. AFC made pre-tax profits of $19.4m last year, on turnover of $193m. At the year-end net assets were $93m and it had $45m of net cash.

Its fibre business makes cigarette filters and ink reservoirs, as does Bunzl. Bunzl said it had been under pressure from its customers to open a second filter plant in the US, which would now be provided by AFC.

AFC's other main business is in plastics extrusion.

Bunzl is funding the deal, its largest this decade, through debt. It ended 1996 with net debt of £42.5m and gearing of nearly 15 per cent.

Earlier this year, Bunzl had talked to one of the American Bunzl trusts about buying part AFC's business. However, those talks broke down, leaving Bunzl with the option of buying the whole company.

Mr Anthony Habgood, Bunzl chairman, said: "I am delighted that the two major shareholder groups have both committed to selling their shares in AFC and am now confident that the transaction will proceed. AFC is an excellent fit with Bunzl and this acquisition is in the interests of both companies".

Bunzl shares rose 5½p to 200p.

Burmah to sell adhesives unit

By Michael Peel

Burmah Castrol, the lubricants and speciality chemicals group, is to sell its adhesives division under its plan to focus on its core chemicals businesses.

The businesses being sold are Industrial Adhesives of the UK and Columbia Cement of the US. The division achieved a return of about 10 per cent on sales last year of £40m ($66m).

Burmah, which made a pre-tax profit of £261.4m on sales of £3.06bn, has defined its four core chemicals areas as foundry, steel mills, construction and screen printing inks.

Companies in these sectors account for more than 70 per cent of group sales.

Burmah said it hoped to sell the two separately for a total of about £40m. It bought Columbia in 1986 for $33m and Industrial Adhesives in 1982 for about £13m.

Mr Mike Dearden, chief executive, said Columbia would probably be sold at a loss to its book value. "We bought these businesses in the 1980s, and at the end of the decade the multiples went through the roof.

The group expected to announce a buyer for Columbia within weeks and hoped to sell Industrial Adhesives by the end of the year.

Burmah's shares closed down 14p at £10.06½p.

Bakyrchik could lose full listing in refinancing deal

By Jane Martinson

Shares in Bakyrchik Gold lost almost half their value yesterday as the London-listed company announced a refinancing package in which it loses control of a gold mine in Kazakhstan.

The company will lose its full listing if the deal is approved. The shares, which were suspended last month when Bakyrchik said it was involved in refinancing talks, fell by 45 per cent, or 37½p, to 46p.

Indochina Goldfields, Bakyrchik's largest holder, plans to pay $55m (£33.3m) to cancel Bakyrchik's debt, pay the next tranche of its fee to the Kazakhstan government and provide immediate working capital requirements.

Indochina, the latest Canadian vehicle of Mr Robert Friedland, the mining entrepreneur, has also guaranteed a further $45m loan to help finance future working capital. In return, Indochina has increased its stake in the Bakyrchik gold mine from 15 to 80 per cent. Bakyrchik's holding will be cut from 85 to 20 per cent.

One shareholder said he expected objections from other holders. "There is concern that Bakyrchik Gold has not struck the best possible deal for minority shareholders," he said. He expected another deal to be forthcoming, probably from another mining company.

Mr Roger Harris, Bakyrchik managing director, said the deal was the best the company could arrange as raising money had become very difficult following the Bre-X scandal and the weaker gold price. Discussions with other mining groups about a possible refinancing had been inconclusive, he added.

Indochina holds 29.9 per cent of Bakyrchik; Robertson Stephens, the US bank, holds about 9 per cent.

At its 83½p price before yesterday's announcement, Bakyrchik was valued at £33.2m.

Commodities, Page 24

Fruit price fall bruises Fyffes

By Maggie Urry

Falling prices for fruit and vegetables affected first-half profits at Fyffes, the Dublin-based fresh produce group.

Pre-tax profits in the six months to April 30 fell from I£20m ($29.7m) to I£19m.

Fyffes also said it was buying the half share it does not own of Velleman & Tas, for I£22.2m. It said the deal would be "earnings enhancing".

It first bought shares in the Netherlands-based fresh produce group three years ago.

Velleman & Tas made a pre-tax profit of I£6.2m in the 12 months to October last year.

The purchase price involves three instalments of I£4.5m each, on completion and then on December 31 1998 and 1999, with a further I£6.5m due depending on profits up to October 31 1999.

Fyffes is paying another I£2.2m for the loan stock.

Fyffes said its strong balance sheet, with net cash of I£49.1m at April 30, enabled it to pursue "an active acquisition programme".

The figures were stated after a change in accounting policies which led to a goodwill write-off of I£1.22m (I£750,000) associated with last year's purchase of a half-share in Geest, the banana importer and distributor.

The group said average selling prices had fallen as good crops throughout the world had increased supplies across a range of products.

The rise in the Irish and US currencies against continental European currencies had significantly affected profits. The outlook for the second half was similar to the same period of last year.

Turnover fell from I£668m to I£663m, reflecting the closure of some operations. Operating profits slipped 7 per cent from I£16.3m to I£15.1m, before a rise in associates' profits from I£3.25m to I£3.69m. Interest receivable increased by I£189,000 to I£1.38m.

Earnings per share rose from 3.21p to 3.38p, due to lower tax and minorities charges, and the net interim dividend was raised by 10 per cent from 0.5196p to 0.5716p.

After the half-year ended, Fyffes sold its 18.5 per cent stake in United Beverages, an Irish drinks group, for I£8.6m compared to a I£5.4m book value. The profit will be taken in the second half.

NEWS DIGEST

Eagle Star to expand in Spain

Eagle Star is expanding its European insurance operations by buying La Suiza of Spain for £27m ($44.8m) from Swiss Life.

The move, financed from existing resources, doubles the size of the company's Spanish business, where it already has two subsidiaries, Eagle Star Seguros Generales and Eagle Star Vida.

Buying La Suiza, which has both life and general insurance activities, will lift Eagle Star's share of the highly-fragmented Spanish market to about 1 per cent. Mr Steve Melcher, director of Eagle Star Holdings, indicated the purchase was the first step of a strategy to expand the company's Iberian operations.

Eagle Star, part of BAT Industries, is one of the UK's largest life, general and reinsurance companies. Its European operations include France, Portugal and Ireland. Swiss Life will continue to operate in Spain through its Swiss Life España subsidiary, and intends to strengthen its life insurance market there. *Christopher Brown-Humes*

GKN Westland in £21m deal

GKN Westland Aerospace, part of GKN, is paying £21m ($35m) cash for Aerospace Composite Technologies.

The deal, which will largely be financed from existing resources, follows GKN WAe's £9m acquisition in March of BP Chemicals' advanced materials division, which designs and manufactures composite structures for the aerospace industry.

Aerospace Composite has two main products – aircraft cockpit windows and electrical anti-icing systems. In the year to July 1996 profits before interest and tax were £2.5m on sales of £19.6m. The company, previously part of Lucas Industries, was formed in a management buy-out in 1993.

Weak US demand hits ILP

ILP, the Irish specialist packaging group, yesterday warned that it would report a loss for the first six months of this year due to weak demand from its US customers.

The company, which supplies protective packaging for the computer and electronics industries, had already warned of a weak first half at its annual meeting in May. The announcement follows a spate of profit warnings from leading computer companies. *Emiko Terazono*

Wace US chief leaves

Wace, the troubled pre-press group, has dismissed the head of its US subsidiary as part of efforts to turn round two years of group losses and a steep fall in the share price. Mr Robert Brudzinski has been replaced temporarily as president and chief executive of Wace USA by Mr Derek Ashley, European managing director.

In May, Mr Hans ten Bos, Wace's chairman, resigned after the third profits warning in a year cut the share price by almost 50 per cent. He was replaced by Mr Peter Brown of Dawson Holdings.

Wace has been hurt by the introduction of new cheap technology in the pre-press field and the defection of key staff to found their own companies. Plans to expand into an integrated international printing concern have also gone awry. *Anatol Lieven*

Ferguson in profits warning

Ferguson International yesterday announced the immediate resignation of Mr David Watson, appointed chief executive last October, as the restructured labels group issued a profits warning.

The group, which in May reported a pre-tax profit for the year to February of £10.6m ($17.6m), said its interim profit would be lower than the forecast £5m. It blamed the "disruptive effects" of relocating two of its plants. Directors now forecast a full-year pre-tax profit before exceptionals of £10.6m, similar to last year.

SIG in £36m purchases

SIG, a distributor of insulation materials, has bought three companies for a total £36.5m ($60.6m) cash. The businesses are Asphaltic Roofing Supplies for £25.1m, and Distribution International and Branton Industries, both based in the US, for $19m (£11.4m).

Amersham has announced its second merger in weeks, while Nycomed hopes the move will revive fortunes

Deal long in the making

By Roger Taylor

The pace of change at Amersham International may seem frantic, with two large deals announced in a matter of weeks, but Mr Bill Castell, chief executive of the healthcare and life sciences group, said Tuesday's merger with Nycomed of Norway was simply the culmination of plans he first set out three months after arriving at Amersham in January 1990.

Since then, he has transformed the company from an unfocused diagnostics business with profits of £23m ($38m) to the market leader in two fast-growing sectors, with profits about 10 times higher.

Over the same period, the shares have risen fivefold from about 300p to £16.82½p.

The merger with Nycomed gives the new company, to be called Nycomed Amersham, leadership in the £3bn market for the reagents used in body scanning techniques such as x-ray, MRI and ultrasound.

Last month, Amersham announced a merger with Pharmacia Biotech of Sweden, to create the world's largest supplier of reagents to laboratories and pharmaceutical companies conducting medical research, a £2bn market.

Amersham estimates the deals, together with other measures, will produce cost savings of more than £100m a year and create significant synergies in product ranges.

Mr Castell said it was by chance that the two mergers had come about at the same time. The link with Nycomed has been under consideration since he first met Mr Trond Jacobsen, chief executive of Nycomed Pharma, in New York in 1993, although serious discussions started more recently.

He said Amersham was waiting until certain factors fell into place to give it a strong negotiating position, such as the US approval of Myoview, its heart imaging agent, and the merger of its Japanese operations with Nihon Medi-Physics, a 50:50 joint venture with Sumitomo, both of which happened last year.

The Sumitomo deal gave Amersham substantial marketing strengths in Japan which neatly complemented Nycomed's strengths in the US and developing markets. And the launch of Myoview gave Amersham a strength in nuclear reagents which fitted with Nycomed's in MRI and x-ray technology.

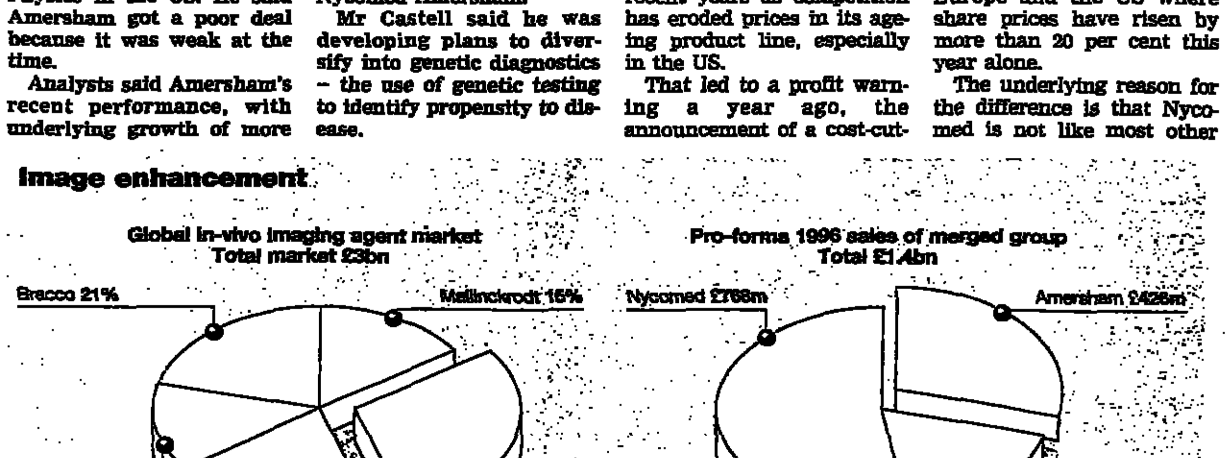
Mr Castell knows the importance of negotiating from strength. His first deal after arriving at Amersham was the purchase of Medi-Physics in the US. He said Amersham got a poor deal because it was weak at the time.

Analysts said Amersham's recent performance, with underlying growth of more than 20 per cent a year, contrasted strongly with the difficulties at Nycomed and made it inevitable that Mr Castell should run the new company, even though Nycomed shareholders will own 53 per cent of it.

The latest deal is unlikely to spell the end of change at Nycomed Amersham.

Mr Castell said he was developing plans to diversify into genetic diagnostics – the use of genetic testing to identify propensity to disease.

Image enhancement



Source: Companies

A symptom of bad timing

By Daniel Green

For Norway's Nycomed, merging with a foreign healthcare company is a long overdue attempt to correct its declining fortunes.

The company is one of Scandinavia's flagship businesses, but has suffered in recent years as competition has eroded prices in its ageing product line, especially in the US.

That led to a profit warning a year ago, the announcement of a cost-cutting programme last autumn and a steadily falling share price throughout the period. Even after Tuesday's NKr23.5 rise to NKr131.5, the value of Nycomed shares is still below that of June 1996.

That dismal performance contrasts sharply with the pharmaceutical sectors in Europe and the US where share prices have risen by more than 20 per cent this year alone.

The underlying reason for the difference is that Nycomed is not like most other drugs companies. It does not make conventional medicines but chemicals which, when injected, make x-ray images clearer. That market is worth £3bn a year, and 80 per cent is taken by just five companies: Mallinckrodt of the US, Bracco of Italy, and Germany's Schering, as well as Amersham and Nycomed.

Nycomed's main problem has arisen from the fact that the old x-ray contrast agents are running out of patent protection.

Nycomed admitted that the level of price discounting had reached 60 per cent. US sales of older x-ray contrast agents fell 25 per cent between 1995 and 1996 to $275m. In Europe, they rose 10 per cent to $200m and in Japan were steady at $400m.

Nycomed's solution has been to invest more in imaging agents for newer technologies such as magnetic resonance imaging (MRI) and ultrasound.

MRI has not grown as quickly as some had hoped because of the capital cost of equipment. And the research aimed at creating the first ultrasound imaging agent is only now coming close to getting on the market, leaving a gap in the product range. "The problems in the US came two years too soon for us," said Mr Trond Jacobsen, head of pharmaceuticals at Nycomed.

Two years ago, Nycomed tried to merge with Ivax, the US drugs company, but Nycomed's biggest shareholders balked at the deal. With hindsight, the failure of that deal was a narrow escape since Ivax's share price has since fallen from $28 to less than $12.

Mr Jacobsen and Mr Bill Castell, Amersham's chief executive, said the prosperity of the merged business was pinned largely on the success of Nycomed's ultrasound imaging agent, code-named NC 100100B. It could be launched as early as 1999.

Almost as an afterthought, Mr Svein Aaser, Nycomed chief executive and deputy chief executive designate of the new company, added that the UK accounting standards under which the new company would report would also help. If they had applied in 1996, Nycomed would have shown an additional £23m profit. That kind of boost should come in handy if the ultrasound drug is delayed in clinical trials.

Strong Irish economy helps lift Jurys

By Scheherazade Daneshkhu, Leisure Industries Correspondent

The strength of the Irish economy helped Jurys Hotel Group lift full-year pre-tax profits by 45 per cent.

The Dublin-based operator said its strategy of geographical diversification had helped it take full advantage of strong corporate and tourist trade.

Pre-tax profits rose from I£9.51m to I£13.8m ($20.8m) in the year to April 30, on turnover 17 per cent ahead at I£57.7m. Operating profit margin increased by 3.3 percentage points to 24.4 per cent as all properties increased their contribution.

The shares closed up 10p at 345p in London.

The company, which has 15 hotels and inns in 10 cities in Ireland and the UK, said it would continue to target large city centres, such as Manchester and Birmingham, where it has no hotels, to broaden its scope.

Mr Barry Sheehan, finance director, said the collapse of the IRA ceasefire last year was not expected to affect business. Trading at Jurys Belfast Inn, its first hotel in the city, had been "very encouraging" since it opened in April. Belfast was a good business city "peace or no peace", said Mr Sheehan.

The corporate and conference sector accounted for more than 75 per cent of the group's custom.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Fyffes ‡	6 mths to Apr 30	663	(667.7)	19	(20)	2.96	(2.95)	0.5716	-	0.5196	-	1.834
Gibbs Mew	Yr to Mar 29	45.3	(43.6)	2.51♠	(5.21)	14.83	(29.83)	6	Oct 1	6	10	10
Jurys Hotel ‡	Yr to Apr 30	57.7	(49.3)	13.8	(9.51)	24.9	(18.5)	4.65	-	4	7.25	6.3
Kalamazoo Computer	Yr to Mar 31	77.8	(66.7)	3.88♠	(5.88♥)	8.8†	(10.2)	3.05	Sept 1	3.05	4.25	4.15
Norbain	Yr to Apr 30	91.6	(72.5)	3.77♠	(5.34)	20.14	(34.08)	5.5	Oct 1	5	8.5	7.5
Vega	Yr to Apr 30	18	(16)	3.26	(3.45)	13.79†	(16.16)	3.5	Sept 5	3.5	5.41	5.25

Dividends: Current payment, Date of payment, Corresponding dividend, Total for year, Total last year.

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abtrust High Inc	9 mths to June 30	-	(-)	-	(-)	-	(-)	1.65	Aug 29	1.6	-	6.45

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ‡Irish currency. ♠After exceptional charge. ♥After exceptional credit. †On increased capital.

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TECHNOLOGY

As Nasa's pioneering Mars probe lands, a spacecraft is relaying data from beyond

Martian trailblazer

If all goes to plan, a small spacecraft will tomorrow enter the atmosphere of Mars, parachute on to an ancient flood plain and bounce to a standstill on giant airbags.

The Mars Pathfinder, the first spacecraft to land on Mars for 20 years, will investigate the surface of the planet in the first of a series of missions that might, one day, yield evidence of life.

The initial phase of the mission will start a few hours after landing when a camera will spring up like a jack-in-the-box on a 1m mast. The camera will search for the sun as a first step to establishing a high-speed communications link to Earth. That will allow the lander's computer to transmit its first batch of scientific data, – information about the Martian atmosphere taken during its descent.

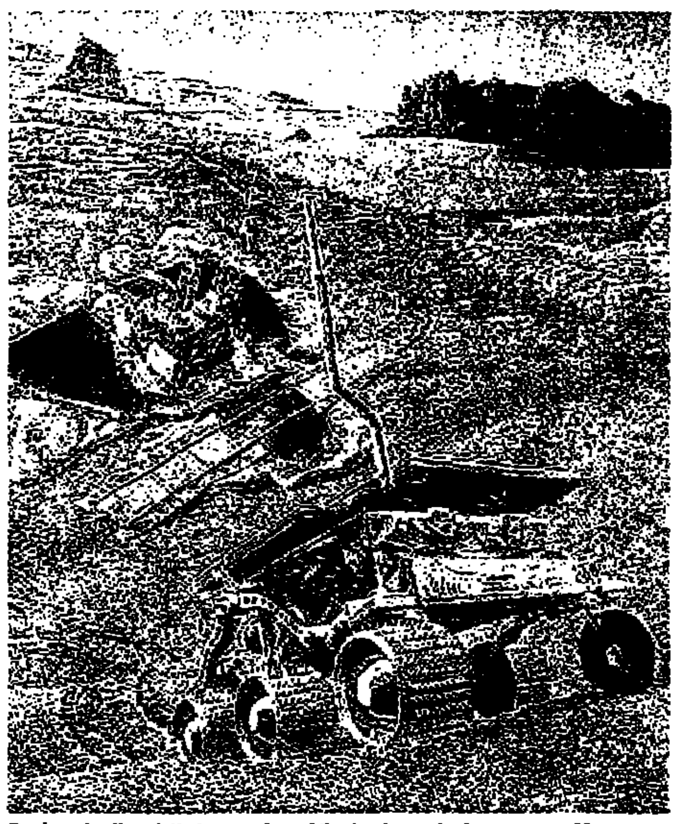
'The mission is primarily an engineering demonstration of key technologies and concepts'

Soon afterwards, a microrover – a metal, box-like contraption on six small wheels – will drive down a ramp and roll on to the surface of Mars. The rover, called Sojourner, will use its laser-based navigation system to move short distances from the lander, allowing its scientific instruments and camera to gather new information about the surface.

The mission, which will be covered extensively on television and the internet, is expected to generate widespread public interest. Many people's imagination was captured by Nasa's announcement last August that it had found microfossils in a meteorite from Mars that was discovered in Antarctica. Since then, the question of whether the meteorite really provides evidence of the remains of ancient life has generated heated debate among scientists.

But the Pathfinder mission – planned years ago – is not designed to answer the big question of whether there was ever life on Mars. "The mission is primarily an engineering demonstration of key technologies and concepts for eventual uses in future missions to Mars employing scientific landers," says Nasa.

In addition, the $280m (£170m) Mars Pathfinder mission is designed to demonstrate the effectiveness of a "faster, better, and cheaper" approach to space exploration. This approach was instituted by Dan Goldin, the Nasa administrator, in 1993 in response to the ballooning costs and high failure rates of a number of costly, sophisticated missions, particularly the $1bn Mars Observer in 1993.



Rock and roll: artist's impression of the lander and microrover on Mars

As Nasa awaits the outcome of the Pathfinder mission, it is keenly aware of the unexplained fate of the Mars Observer and the failure of a string of other missions to Mars, most recently a Russian probe that crashed last November. The high failure rate of missions to Mars has prompted uneasy jokes about a Great Galactic Ghoul that jinxes attempts to probe the planet.

The Pathfinder landing may have to contend with such hazards as bigger than expected rocks, or damage caused by a hard landing that will force it to simplify the mission. "In all likelihood ... there will be some condition or conditions of the spacecraft that will be different from the ideal case," says Nasa.

The "nominal mission scenario" involves gathering data for at least 30 Martian days or sols – equivalent to 24.6 hours. Cameras and scientific instruments on the lander and the rover will provide information about the chemical composition of rocks and soil. This is a crucial first step in determining what samples a future mission should bring back to Earth.

Nasa's thorough, methodical approach to exploring the geology of Mars may be supplemented, and even overtaken, by an alternative strategy being considered by the European Space Agency. The Mars Express mission, which would be launched in 2003, would drill below the oxidised surface of the planet to obtain samples to be analysed in situ by miniaturised equipment.

With or without the Esa mission, Mars is likely to receive a flotilla of spacecraft from Earth over the next decade. The Pathfinder – and the Global Surveyor, a mapping mission which will shortly arrive at Mars – are just the beginning of a 10-year programme of Mars exploration. Nasa plans to launch pairs of orbiters and landers every 26 months, to take advantage of the periods at which Mars lines up in its orbit with Earth.

This programme may lead to human exploration of Mars. Numerous hurdles must be overcome before this point is reached, including completion of the international space station, which would be an essential staging post for such a mission. A successful human exploration mission might also depend on an ability to create fuel from raw materials on Mars to propel the astronauts back to Earth.

For now, Nasa will judge the mission a success if it prepares the way for future unmanned, low-cost spaceships. By demonstrating the success of innovative technologies such as the robotic rover, Pathfinder could live up to its name and open up a new era in space exploration.

Vanessa Houlder

A difficult encounter with Mathilde

Gliding past at 22,000mph, a $112m (£67.8m) Nasa space probe has sent back spectacular still images of 253 Mathilde, a carbon-rich, coal-black asteroid lying between Mars and Jupiter, some 180m miles from earth.

The Near Earth Asteroid Rendezvous (Near) robot spacecraft was initially designed by Johns Hopkins University's Applied Physics Lab in Maryland to orbit and land on 433 Eros, another large asteroid in the vicinity.

A year before its launch in February last year, however, Robert Farquhar, mission director, realised the 805kg probe might also be able to swing by Mathilde.

At 4.6bn years old, Mathilde, a 33-mile-wide jagged and scarred slab of rock, is one of the oldest asteroids in the solar system and one of the few whose orbits come close to or cross that of Earth.

Although Mathilde is so uniformly black that it reflects only 3 per cent of all sunlight, Near took 534 images during its 25 minute fly-by last Friday, from a distance of only 750 miles away.

"I don't have a lot of faith in technology, but everything worked beautifully," says Farquhar. "Since this spacecraft was really not built to do a fast fly-by, this was an extremely difficult encounter."

All the images have been successfully downloaded and reveal at least five craters of more than 12 miles in diameter.

Roughly spherical, Mathilde's mass is essentially a rubble pile with lots of vacuum pockets, making it a third lighter than expected, or about one-millionth the mass of the Moon.

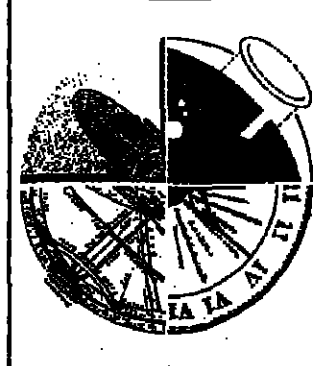
With four solar panels, Near is the first solar-powered spacecraft to operate beyond the orbit of Mars. But to make the Mathilde encounter, mission control had to turn the entire craft at an awkward angle, causing its imager to point wild much of the time. As a result, there are an average of only two good pictures for every 30 taken, although the imager's refracting lens still achieved resolution equal to that of viewing southern California's Rose Bowl from Colorado.

In January 1999, the spacecraft begins a first slow fly-by of Eros at a distance of 300 miles. From there, it will circle the cigar-shaped, 24-mile long asteroid in progressively smaller orbits while detailing Eros's topology, mineralogy, shape and spin. The result will be the first global geologic map of any asteroid.

Then, when low on fuel and on its final approach to the surface, mission control will initiate boosting manoeuvres to prolong its ability to direct the spacecraft's antenna for downloading data before it hits rock on February 6 2000.

Bruce Dorminey

Worth Watching · Andrew Baxter



Global warming debate hots up

One of the big issues in the global warming debate is whether the rise in the earth's average surface air temperature over the past century – agreed to be about 0.6°C – is caused by natural forces, or human activity, or both.

A report in today's *Nature* gives a statistical analysis of temperature data going back more than a century that seems to implicate human activity. Robert Kaufmann of Boston University in the US and David Stern of the Australian National University in Canberra show how temperature in the northern hemisphere, where most human activity takes place, depends, in a statistical but not physical sense, on temperature in the southern hemisphere.

This pattern, which has strengthened over time, can be explained by the climatic effects of trace gases and sulphate aerosols emitted into the atmosphere as the result of human activity. The researchers were able to rule out natural climatic fluctuations, although some natural sources of variability, such as solar irradiance, have increased over the past century alongside human activity.

Robert Kaufmann, US: tel 6173533940, fax 6173535986, e-mail kaufmann@bu.edu

Cool view on overheating

Dispersing heat efficiently is one of the great challenges in electronics design, as overheating can cause component failure and degrade overall performance.

But traditional materials used to disperse heat are losing their effectiveness, because they expand too quickly when hot, damaging a circuit's connections.

Over the past five years, the UK's AEA Technology has developed a material to solve the problem. Known as Hivol, it is a composite based on silicon carbide and aluminium. This combines the high thermal conductivity of aluminium with the low thermal expansion of the silicon carbide ceramic.

The new composite is light and strong, so is ideal for weight-sensitive applications.

AEA Technology, UK: tel (0)1235 432833, fax (0)1235 432424, e-mail barry.p.moloney@aeat.co.uk

How to help the bug-busters

The larva of the common green lacewing ought to be the gardener's best friend. It can consume 300 aphids during its growth, helping to eliminate the pests from plants without resorting to chemical insecticides.

Unfortunately, most lacewings die during the winter, leaving small numbers surviving through to spring. Now Cardiff-based Biotal Industrial Products has developed a chamber in which lacewings can shelter during the cold weather, following research from Cardiff University showing that adult lacewings survive the winter best in clusters. The houses are made of marine ply, tightly packed with straw impregnated with a natural pheromone attractant, and weather-resistant for five years.

Biotal, UK: tel (0)1222 747414, fax (0)1222 747140

When waterproof means what it says

Waterproof plasters are notorious for not being entirely waterproof, and for peeling off when bathing or swimming. The solution, says 3M Health Care, is its Protect Strips. The new plaster is a non-stick pad sealed closely against the skin by an overlay of transparent adhesive material that is designed to block water, dirt and germs. It is based on specialist material used in hospitals for advanced wound care.

UK. Tel (0)1753 869455, fax (0)1753 857526, e-mail pr@barretthowe.co.uk

CONTRACTS & TENDERS

Treasuries gain as Fed holds rates

GOVERNMENT BONDS

By John Labate in New York and Michael Lindemann in London

US and European bond markets maintained their upward momentum yesterday as investors bet that the Federal Open Market Committee would leave US interest rates unchanged.

US TREASURIES rose modestly on the Federal Reserve's confirmation of that in the afternoon and traded narrowly as expected.

The benchmark 30-year Treasury rose $\frac{3}{32}$ to 98$\frac{25}{32}$, sending the yield down to 6.720 per cent.

Two-year notes were unchanged at 99$\frac{18}{32}$, yielding 6.016 per cent, while the 10-year note rose ¼ to 101$\frac{7}{16}$, to yield 6.416 per cent.

While most analysts had expected the Fed to leave interest rates unchanged for now, some believe rates could go higher after the Fed's August meeting.

Helping keep prices higher in morning trading was a fall in May factory orders, which slid 0.7 per cent – a steeper decline than analysts were expecting. It follows a revised 1.4-per cent increase in orders for April.

In Europe, GERMAN BUNDS led the way, with the September bund breaking through the 102 barrier. The future touched an intraday high of 102.17 before finally settling at 102.02, up 0.14 on the day.

Analysts said the 102 level was "a relatively important" resistance level, but pointed out that the bund market had also been bolstered by weaker than expected May industrial production data. These showed a monthly 0.2 per cent fall, compared with monthly 0.3 per cent rise in April.

The new 30-year bund was relatively well received, according to Mr Heinz Gunasekera, analyst at UBS, with investors buying the new issue to replace the previous January 2024 benchmark issue.

However, Mr Gunasekera pointed out that the demand came almost entirely from trading accounts and not from end-investors, who continue to be wary of 30 year bonds.

ITALIAN BTPs were the day's star performer, gaining on renewed enthusiasm about Italy's entry to the European single currency.

The September BTP future touched a new contract high of 135.20 before settling at 135.02, up 0.62 on the day. The yield spread over bunds, which has been closing in since the Amsterdam summit in mid-June, gained another six basis points to 108 basis points.

Mr David Brown, chief European economist at Bear Stearns, said the convergence trades had "plenty of momentum left" and enthusiasm about Italy was reinforced by expectation that there could be further interest rate cuts, following last Friday's half-point cut to 6.25 per cent.

FRENCH OATs also gained ground. The September notional future touched a new contract high of 129.72 before settling at 129.66, up 0.24 on the day. Traders warned, however, that profits might be taken this morning ahead of the auction of a new 10-year 5.5 per cent OAT.

Gilts tumble as Budget disappoints traders

Gilts tumbled in after-hours trading last night as investors concluded that Mr Gordon Brown's first Budget had done little to relieve upward pressure on UK interest rates, writes Michael Lindemann.

The September gilt future had settled at 114$\frac{22}{32}$ but then plunged a full point to 113$\frac{22}{32}$, though it later recovered slightly to 113$\frac{28}{32}$. The yield spread over bunds widened 10 basis points to 157 basis points as traders registered disappointment. "The market had got ahead of itself in recent days, expecting the chancellor to pull a rabbit out of the hat, but he didn't," said Mr Andrew Roberts, analyst at UBS.

Another analyst said that the Budget announcements of additional petrol duty, an increase in stamp duty and a slight cut in mortgage interest tax relief were far short of expectations.

Mr Kevin Adams, analyst at BZW, said: "This Budget has not done enough to restrain what could be some very strong consumer spending numbers in the coming months." He repeated his forecast that interest rates would be 7.25-7.50 per cent in about a year. "I think we may get there rather faster than expected than if this Budget had taken consumer spending to task," he said.

Strips signal Bonn's Emu commitment

Germany this week stepped up its efforts to retain its position as the benchmark bond market in Europe.

On Tuesday, the finance ministry gave the strongest signal yet that it would allow about DM450bn of government debt to be redenominated in euros, the planned single currency, at the start of European monetary union in January 1999. Mr Jürgen Stark, state secretary in the finance ministry, said he would recommend redenomination to Mr Theo Waigel, finance minister, and expected a full announcement within the month.

The move coincided with the start of Germany's market for strips – created when a conventional bond is broken down into the coupon payments and the principal. These can then be held and traded separately.

Although long established in some countries, such as the US and France, these innovative products – which the UK is also introducing later this year – have been missing from Germany. The authorities have realised that if they are to be competitive under Emu against other financial centres such as Paris, they need to offer a market in strips.

Strips are attractive to pension funds, insurance companies and private investors because they offer an efficient way to fund liabilities and remove the reinvestment risk of conventional bonds.

Germany now has four stripable bond issues, together worth DM77bn. These include two 10-year and two 30-year bonds, one of which was launched this week. Analysts expect more strippable issues soon, especially in the 30-year area, and the existing stripable issues to be enlarged.

Strips, along with the hint that Germany will convert its debt to euros in 1999, signal Germany's commitment to Emu, analysts say.

"Strips will become the link between European bond markets, because they are comparable across markets, are liquid and have a uniform calculation method. They will become the benchmark for the European government debt market. This is important for the success of the euro," says Mr Gunnar Stangl, at Dresdner Kleinwort Benson in Frankfurt.

The move to redenominate debt in euros was long resisted by some of Germany's smaller savings banks. They hold a lot of bonds on behalf of individual customers and worry that redenomination, and the associated recalculation of customers' accounts, would be too costly.

Germany's bigger banks, on the other hand, have campaigned for redenomination at the start of Emu. Countries such as France and the Netherlands have said they will convert their government debt in 1999 – earlier than required by the Maastricht treaty.

Ms Alison Cottrell, economist at PaineWebber, says that as long as the German government delayed its decision to convert its debt to euros, there was always the suspicion it was not fully convinced the single currency would happen.

Graham Bowley

Lira sector benefits from Emu optimism

INTERNATIONAL BONDS

By Edward Luce

Borrowers reiterated their faith in the Italian convergence story yesterday with a series of well-received lira issues. Bankers said that the currency had become especially popular at the longer end of the maturity curve since the Italian treasury cancelled its mid-month 10-year BTP auction. This had freed up supply for other borrowers, they said.

Optimism over Italy's chances of joining Emu at its inception was also behind the lira's popularity, said officials. At a spread of 108 basis points over German bunds yesterday, Italian cash bonds still had plenty of tightening ahead, they added.

L-BANK, the development agency for the state of Baden-Württemberg, revived interest in its February parallel bond issue by adding the lira as its third currency.

The L500bn offering joins the bank's DM750m and FFr2bn issues with an identical maturity of March 2004. Unlike the French and German tranches, however, the lira portion has a coupon of 9 per cent to reflect higher long-term rates in Italy. This will immediately convert to the standard 5¼ per cent coupon if Italy joins Emu in 1999. An official at J.P. Morgan, sole bookrunner, said 80 per cent of the paper went to Italian buyers. "All of a sudden the lira market is popular with big organisations," he said.

BRAZIL became the largest emerging market to borrow in lira, adding a further L250bn to its L500bn 20-year offering last month. This puts it ahead of Mexico, which issued a L500bn 20-year bond in May. The 20-year Brazil issue was priced generously at 340 basis points over BTPs – about 15 basis points wider than the secondary market trading level of its first tranche last month.

Deutsche Morgan Grenfell, sole bookrunner, said the bond narrowed to a spread of 320 basis points after launch. Yesterday's offering follows the three-year lira issue by Telebras and the five-year by BNDES, Brazil's state development bank.

MEXICO continued its drive to extend the average maturity of its overseas debt with an 11-year DM750m offering. Priced to yield 230 basis points over 10-year bunds, the bonds widened a couple of basis points in secondary trading. Deutsche Morgan Grenfell, sole bookrunner, admitted some paper had been returned, but said it was well received by most investors in Germany.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Christiania Bank‡	250	(a)	99.983R	Jul 2000	0.15R	-	Lehman Brothers Intl
D-MARKS							
United Mexican States	750	8.00	100.00R	Jul 2008	0.875R	+230(8Jul07)	Deutsche Morgan Grenfell
SWISS FRANCS							
Deutsche Finance Neths	500	3.25	101.60	Aug 2005	2.625	-	Deutsche Morgan Grenfell
LB Rheinland-Pfalz(b)	150	2.00	98.15	Dec 2002	2.00	-	UBS
ITALIAN LIRE							
Baden Württemberg L-Fin(c)	500bn	(c1.s)	99.425R	Mar 2004	0.25R	-	JP Morgan Securities
KfW International Finance	300bn	6.625	99.75R	Aug 2007	0.325R	-	Credito Italiano
GECC	300bn	6.125	101.555	Jul 2002	1.875	-	BCI
Federative Rep of Brazil(d)	250bn	11.00	100.375R	Jun 2017	0.70R	-	Deutsche Morgan Grenfell
Lehman Bros Holdings(e)‡	175bn	7.30	101.675	Aug 2002	1.875	-	BCI/Cariplo
GUILDERS							
Bayerische Vereinsbank	300	6.125	99.998R	Jul 2009	0.425R	+42(i)	ABN Amro Hoare Govett
PESETAS							
Deutsche Ausgleichsbank	10bn	6.20	101.345	Jul 2007	1.75	-	BCH/BSN
ESCUDOS							
Fed Home Loan Mtg Crp(f)‡	10bn	(f1)	100.00	Jul 2007	0.275	-	Banco Cisf

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor flat. b) Fungible with SFr100m. Plus 108 days accrued. c) Fungible with existing FFr2bn and DM750m upon Emu. c1) 9% to 5/3/99, then 5¼%. d) Fungible with L500bn. Plus 14 days accrued. e) Issuers option to convert on 1/8/98 to either 7% fixed or 6-mth Libor +⅜%. f) Callable on 30/7/01 at par. f1) 6½% to 30/7/01, then 13% - 12-mth Lisbor; min 4%. i) Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	121.6280	-0.170	7.01	7.02	7.56
Austria		5.750	04/07	99.5900	+0.170	5.80	5.84	5.89
Belgium		6.250	03/07	103.8100	+0.130	5.72	5.77	5.98
Canada *		7.250	06/07	107.4600	+0.680	6.23	6.13	6.51
Denmark		7.000	08/07	105.5800	+0.320	6.25	6.43	6.41
France	BTAN	4.750	03/02	100.9556	—	4.52	4.58	4.75
	OAT	5.500	04/07	99.7600	+0.090	5.53	5.59	5.78
Germany Bund		6.000	07/07	102.5900	-	5.65	5.89	5.90
Ireland		8.000	08/06	110.8000	+0.500	6.40	6.51	6.68
Italy		6.750	02/07	100.9200	+0.590	6.62†	6.89	7.13
Japan	No 148	5.600	06/02	118.3053	+0.040	1.62	1.76	1.82
	No 182	3.000	09/05	104.7275	+0.030	2.32	2.48	2.58
Netherlands		5.750	02/07	101.6600	+0.120	5.52	5.56	5.79
Portugal		9.500	02/06	121.3500	+0.350	6.22	6.25	6.40
Spain		7.350	03/07	107.1700	+0.350	6.32	6.31	6.56
Sweden		8.000	08/07	110.3809	+0.360	6.56	6.66	7.04
UK Gilts		7.000	06/02	99-29	-3/32	7.02	7.05	7.05
		7.250	12/07	101-28	+5/32	6.99	7.09	7.20
		9.000	10/08	115-02	+5/32	7.04	7.14	7.27
US Treasury *		6.625	05/07	101-15	+7/32	6.42	6.42	6.74
		6.625	02/27	98-25	+11/32	6.72	6.71	6.99
ECU (French Govt)		7.000	04/06	107.8000	-0.110	5.84	5.86	6.04

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8½	One month	-	Two year	6.03
Broker loan rate	7¼	Two month	-	Three year	6.15
Fed.funds	5⅝	Three month	5.23	Five year	6.30
Fed.funds at intervention	-	Six month	5.32	10-year	6.42
		One year	5.64	30-year	6.72

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	129.52	129.66	+0.24	129.88	129.50	142,196	204,557
Dec	98.14	98.28	+0.26	98.34	98.14	625	3,070
Mar	97.54	97.68	+0.26	97.54	97.54	2	-

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
125	-	4.67	-	-	0.09	-
126	3.67	3.73	-	0.06	0.20	-
127	2.71	2.85	-	0.14	0.36	-
128	1.80	-	-	0.35	0.64	-
129	1.00	1.30	-	0.78	1.08	-

Est. vol. total, Calls 11,777 Puts 14,326. Previous day's open int., Calls 72,709 Puts 105,416.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.90	102.02	+0.14	102.17	101.84	208272	260111
Dec	100.97	101.10	+0.13	101.18	100.97	781	8354

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Aug	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Aug	PUTS Sep	PUTS Oct	PUTS Dec
10200	0.49	0.77	0.59	0.93	0.47	0.75	1.49	1.83
10250	0.26	0.52	0.43	0.74	0.74	1.00	1.83	2.14
10300	0.12	0.34	0.30	0.58	1.10	1.32	2.20	2.48

Est. vol. total, Calls 29922 Puts 14350. Previous day's open int., Calls 141165 Puts 180093

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	134.40	135.02	+0.62	135.20	134.39	72211	101115
Dec	107.00	107.32	+0.48	107.30	107.00	370	580

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Sep	CALLS Dec	PUTS Sep	PUTS Dec
8000		27.32		0
8050		26.82		0
8100		26.32		0

Est. vol. total, Calls 9570 Puts 7621. Previous day's open int., Calls 69423 Puts 84134

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	116.62	117.02	+0.39	117.19	116.57	108,930	106,030
Dec	100.20	100.40	+0.21	-	-	3	237

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114-22	114-25	+0-05	115-05	113-25	100037	169264
Dec	114-10	114-12	+0-06	114-14	114-10	228	0

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Aug	CALLS Sep	CALLS Oct	CALLS Dec	PUTS Aug	PUTS Sep	PUTS Oct	PUTS Dec
114	1-15	1-40	1-42	2-10	0-29	0-54	1-18	1-50
115	0-42	1-03	1-11	1-43	0-56	1-17	1-51	2-19
116	0-17	0-40	0-51	1-16	1-31	1-54	2-27	2-56

Est. vol. total, Calls 15688 Puts 6795. Previous day's open int., Calls 34004 Puts 22998

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	96.34	96.40	+0.22	96.52	96.30	694	5,078

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	111-24	111-26	+0-04	111-31	111-22	337,639	412,548
Dec	111-12	111-11	+0-01	111-18	111-11	630	26,538
Mar	-	111-04	-	-	-	1	2,394

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	124.45			124.60	124.45	1309	na
Dec	123.80			123.90	123.80	170	na

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Wed Jul 2	Day's change %	Tue Jul 1	Accrued interest	xd adj. ytd
1 Up to 5 years (20)	120.18	0.05	120.12	2.47	5.38
2 5-15 years (20)	153.31	0.13	153.12	2.51	5.93
3 Over 15 years (6)	182.14	0.23	181.72	5.94	5.02
4 Irredeemables (5)	211.05	0.19	210.66	2.24	7.34
5 All stocks (51)	147.74	0.12	147.56	3.14	5.68
Index-linked					
6 Up to 5 years (2)	205.66	0.15	205.36	1.53	3.03
7 Over 5 years (10)	199.79	0.45	198.89	1.87	2.86
8 All stocks (12)	199.33	0.42	198.50	1.82	2.86

	Low coupon yield Jul 2	Jul 1	Yr. ago	Medium coupon yield Jul 2	Jul 1	Yr. ago	High coupon yield Jul 2	Jul 1	Yr. ago
5 yrs	6.98	7.00	7.31	7.04	7.06	7.36	7.10	7.12	7.43
15 yrs	6.98	7.00	8.13	7.05	7.07	8.13	7.11	7.13	8.33
20 yrs	6.98	7.00	8.24	7.05	7.07	8.22	7.11	7.13	8.30
Irred.†	7.15	7.16	8.33						

	Inflation 5% Jul 2	Jul 1	Yr. ago	Inflation 10% Jul 2	Jul 1	Yr. ago
Up to 5 yrs	3.53	3.57	2.68	2.88	2.91	1.16
Over 5 yrs	3.56	3.60	3.82	3.36	3.39	3.61

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jul 2	Jul 1	Jun 30	Jun 27	Jun 26	Yr ago	High*	Low*
Govt. Secs. (UK)	97.12	96.99	96.51	96.86	96.46	93.00	97.51	93.31
Fixed Interest	124.13	123.89	123.65	124.27	123.86	112.52	124.27	115.32

Gilt Edged Activity Indices

	Jul 1	Jun 30	Jun 27	Jun 26	Jun 25
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

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FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on July 2

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	99¼	99½	+⅛	6.65
ABN Amro Bank 7¼ 05	1000	101¾	101⅞	+¼	7.08
African Dev Bk 7⅜ 23	500	100¾	101⅛	+⅛	7.31
Alberta Province 7⅝ 98	1000	101¾	101⅞		6.18
Argentina 11⅜ 17	2000	111¾	112⅛	+¼	10.24
Asian Dev Bank 6¼ 05	750	97⅝	97⅞	+⅛	6.73
Austria 8½ 00	400	104¾	105		6.40
Baden-Wuertt L-Fin 6⅛ 00	1000	103⅞	104	+⅛	6.41
Bancomext 7¼ 04	1000	93⅛	93½	+⅛	8.63
Bank Ned Gemeenten 7 99	1000	101⅜	101⅝		6.28
Bayer Vereinsbk 8⅛ 00	500	103⅞	104⅛	+⅛	6.41
Belgium 5½ 03	1000	94⅝	94⅞	+⅛	6.56
British Columbia 7¾ 02	500	104½	104¾	+⅛	6.65
British Gas 0 21	1500	16¼	16½		7.75
Canada 6⅜ 05	1500	98¾	98⅞	+⅛	6.58
Cheung Kong Fin 5½ 98	500	98⅜	98½		6.88
China 6½ 04	1000	96⅞	97⅛	+¼	7.22
Credit Foncier 9½ 99	300	104⅞	105	+⅛	6.24
East Japan Railway 6⅝ 04	600	98⅝	98¾	+¼	6.86
EIB 6 04	500	97⅝	98	+⅛	6.44
Ex-Im Bank Japan 8 02	500	105⅝	105⅞	+⅛	6.61
Export Dev Corp 9½ 98	150	103¼	103½		6.14
Exxon Capital 0 04	1800	62⅞	63¼	+⅛	6.50
Fed Home Loan 7⅛ 99	1500	101⅞	102	+⅛	6.23
Federal Natl Mort 7.40 04	1500	104½	104¾	+⅛	6.70
Finland 7⅞ 04	1500	107⅛	107¼	+⅛	6.71
Ford Motor Credit 6½ 02	1250	99	99⅛	+⅛	6.68
General Mills 0 13	1000	27⅛	27½	+⅜	8.43
INI Finance 5¼ 98	650	98⅝	98⅞		6.25
Inter-Amer Dev 6½ 08	1000	97	97⅛	+¼	6.89
Inter-Amer Dev 7½ 05	500	104⅜	104⅝	+⅛	6.75
Intl Finance 5¼ 99	500	98¾	99		6.11
Italy 6 03	2000	97¾	97⅞	+¼	6.55
Italy 6⅞ 23	3500	95	95⅛	+⅜	7.44
Japan Dev Bk 8⅜ 01	500	105⅞	106⅛		6.48
Korea Elec Power 6⅜ 03	1350	95⅞	96¼	+⅛	7.32
Matsushita Elec 7¼ 02	1000	102¾	103	+⅛	6.71
Mexico 9⅞ 07	1000	105⅝	106⅛	+⅜	9.18
Minfin Russia 9¼ 01	1000	100¾	101⅛	+⅛	9.24
Ontario 7⅜ 03	3000	103⅜	103½	+⅛	6.75
Ontario 7¾ 02	2000	104¾	105	+⅛	6.71
Oster Kontrollbank 8½ 01	200	106¼	106½	+⅛	6.52
Portugal 5¾ 03	1000	96⅛	96¼	+⅛	6.62
Quebec Hydro 9¾ 98	150	103⅞	104⅛		6.36
SAS 10 99	200	105¼	105⅝		6.50
SNCF 9½ 98	150	103⅜	103½	+⅛	6.07
Spain 6½ 99	1500	100⅝	100¾	+⅛	6.18
Sweden 6½ 03	2000	100⅜	100½	+¼	6.52
Tennessee Valley 6 00	1000	99	99⅛		6.43
Tennessee Valley 6⅜ 05	2000	98⅜	98½	+⅛	6.75
Tokyo Elec Power 6⅛ 03	1000	98½	98¾	+⅛	6.43
United Kingdom 6¾ 01	2000	101⅞	102	+⅛	6.21
United Kingdom 7¼ 02	3000	104⅛	104¼	+⅛	6.32
Walt Disney 6⅜ 01	1300	99½	99⅝	+⅛	6.53
World Bank 6⅝ 05	1500	98⅞	99	+¼	6.86
World Bank 8⅜ 99	1500	105	105¼		6.05
DEUTSCHE MARK STRAIGHTS					
Austria 6½ 24	2000	99	99¼		6.58
Baden-Wuertt L-Finance 6 99	2000	104⅛	104¼		3.85
Bayerische LB 6 06	1800	102¼	102½	+¼	5.62
Credit Foncier 7¼ 03	2000	109¼	109⅝		5.30
Depfa Finance 6⅞ 03	1500	105⅞	106	-⅛	5.24
Deutsche Bk Fin 7½ 03	2000	110⅝	110⅞	-⅛	5.25
Deutsche Finance 5¾ 04	2500	102⅞	103⅛	-⅛	5.22
EEC 6½ 00	2900	108⅜	108½		3.94
EIB 6¼ 00	1500	105¾	106	-⅛	4.00
Finland 7½ 00	3000	108⅝	108¾		3.89
Helaba Intl 5¾ 01	1500	104⅜	104¾	+⅛	4.58
KFW Intl Finance 6¼ 03	2250	105⅞	106	+⅛	5.13
LKB Baden-Wuert 6½ 08	2250	104⅞	105	+⅛	5.89
Ontario 6¼ 04	1500	105⅛	105¼	+⅛	5.29
Spain 7¼ 03	4000	111⅛	111¼		4.95
Volkswagen Intl Fin 7 03	1000	108⅜	108⅝	-¼	5.31
World Bank 5⅞ 03	3000	104¾	104⅞		4.98
World Bank 6⅛ 02	3000	106⅜	106½		4.72
World Bank 7⅛ 05	3000	110⅝	110⅝	+⅛	5.41
SWISS FRANC STRAIGHTS					
Asian Dev Bank 0 16	500	43¾	44⅛	+⅜	4.55
Austria 4½ 00	1000	106¼	106⅝	-⅛	2.01
Denmark 4¼ 99	1000	104¼	104½	-⅛	2.28
EIB 3¾ 99	1000	103	103⅜	-⅛	1.79
EIB 6¼ 04	300	116	116¼	-¼	4.15
Finland 7¼ 99	300	111	111⅜	-⅛	2.21
Helaba Finance 3¾ 00	1000	105⅛	105⅜		2.20
Iceland 7⅝ 00	100	115⅛	115⅝	-⅛	2.48
Inter Amer Dev 4¼ 03	600	109¼	109¾		3.07
Ontario 6¼ 03	400	116⅛	116⅜		3.05
Quebec Hydro 5 08	100	104¼	105½		4.49
SNCF 7 04	450	122⅝	123¼	+¼	3.43
Sweden 4¾ 03	500	109¼	110		3.07
World Bank 0 21	700	31¾	32⅜	+⅜	4.81
World Bank 7 01	600	115⅝	116	-⅛	2.49
YEN STRAIGHTS					
Belgium 5 99	75000	109⅛	109⅜		1.21
Credit Foncier 4¾ 02	75000	112⅝	112⅞		2.11
EIB 6⅝ 00	100000	114⅜	114⅝		1.19
Ex-Im Bank Japan 4⅜ 03	105000	113¼	113½	+⅛	2.09
Fed Nat Mort 2 99	100000	102	102⅛		1.18
Inter Amer Dev 7¼ 00	30000	116¾	117		1.27
Italy 3½ 01	300000	107	107⅛		1.66
Italy 5 04	200000	117⅜	117⅝	+⅛	2.42
Japan Dev Bk 5 99	100000	108⅝	108¾		1.09
Japan Dev Bk 6½ 01	120000	119⅞	120		1.59
SNCF 6¾ 00	30000	114¼	114½		1.27
Spain 5¼ 02	125000	117¾	118		1.80
World Bank 5¼ 02	250000	116⅛	116¼		1.68
OTHER STRAIGHTS					
EBRD 14¾ 99 R	250	99¾	100¾	+¼	14.78
World Bank 15 99 R	500	100⅝	101¼	+⅛	14.38
Austria 6½ 99 Fl	1000	104⅞	105		3.71
PTT Nederland 6½ 06 Fl	1300	106	106	+⅛	5.63
Bell Canada 10⅝ 99 C$	150	110⅛	110½	+⅛	5.25
British Columbia 7¾ 03 C$	1250	108⅝	108⅞	+½	6.09
Canada Mtg & Hsg 8¼ 99 C$	1000	106½	106⅝	+⅛	5.01
Elec de France 9¾ 99 C$	275	109¼	109½	+⅛	5.14
KfW Int Fin 10 01 C$	400	114	114¼	+¼	5.68
Nippon Tel Tel 10¼ 99 C$	200	110½	110¾	+⅛	5.25
Ontario 8 03 C$	1500	109⅝	110	+¼	6.05
Ontario Hydro 9 02 C$	2000	113½	113⅞	+¼	5.92
Ontario Hydro 10⅞ 99 C$	500	109¾	110	+⅛	4.87
Oster Kontrollbank 10¼ 99 C$	150	109⅞	110⅛	+⅛	5.09
Quebec Hydro 7 04 C$	1000	103⅞	104⅛	+⅛	6.40
Quebec Prov 10½ 98 C$	200	107⅝	107⅞	+⅛	4.74
Council Europe 9 01 Ecu	1100	115⅜	115⅝		4.96
Credit Foncier 8⅜ 04 Ecu	1000	112⅞	113⅛	-⅛	5.98
Denmark 8½ 02 Ecu	1000	114⅜	114⅝	+⅛	5.05
EC 6 00 Ecu	1100	104¼	104⅝	+⅛	4.59
EIB 10 01 Ecu	1150	117⅛	117⅜		4.85
Finland 8½ 07 Ecu	750	117	117⅜	+⅛	6.10
Italy 9¼ 11 Ecu	2500	125⅞	126¼	+¼	6.38
Italy 10¾ 00 Ecu	1000	115¾	116⅛	+⅛	4.60
United Kingdom 9⅛ 01 Ecu	2750	114½	114⅝	+⅛	4.68
AIDC 10 99 A$	100	107¼	107⅝	-⅛	5.99
Comm Bk Australia 13¾ 99 A$	100	115¼	115⅝	-¼	6.16
EIB 7¾ 99 A$	350	104⅞	105⅛		5.38
Nat Australia Bank 8¼ 99 A$	250	100¾	101¼		6.76
NSW Treasury Zero 0 20 A$	1000	19	19⅛	+¼	7.36
R & I Bank 7¾ 03 A$	125	104½	104⅞	+¼	6.80
State Bk NSW 9 02 A$	300	109⅛	109½	-⅛	6.85
Sth Aust Govt Fin 9 02 A$	150	109⅛	109½	-⅛	6.85
World Bank 8¼ 00 A$	100	103½	103⅞	-1½	6.94
Abbey Natl Treasury 8 03 £	1000	102¼	102½		7.49
British Land 8⅞ 23 £	150	106½	106⅞	+⅜	8.43
Denmark 6¾ 98 £	800	99½	99⅝		7.18
Depfa Finance 7⅛ 03 £	500	98	98¼	+⅛	7.52
EIB 8 03 £	1000	103½	103⅝	+¼	7.25
Finland 7 00 £	500	99¾	99⅞	+⅛	7.07
Glaxo Wellcome 8¾ 05 £	500	107¼	107½		7.54
HSBC Holdings 11.69 02 £	153	116⅜	116⅝		7.67
Italy 10½ 14 £	400	127¼	127½	+½	7.58
Japan Dev Bk 7 00 £	200	99½	99¾	+⅛	7.16
Land Secs 9½ 07 £	200	112⅛	112⅜	+¼	7.69
Ontario 11⅛ 01 £	100	110⅞	111⅛		7.55
Powergen 8⅞ 03 £	250	105⅛	105⅜		7.72
Severn Trent 11½ 99 £	150	107¼	107⅜		7.51
Tokyo Elec Power 11 01 £	150	111⅜	111⅝		7.54
TCNZ Fin 9¼ 02 NZ$	75	108⅛	108⅝	-½	7.25
World Bank 9 99 NZ$	250	103⅝	104⅛	+⅛	7.01
Credit Local 6 01 FFr	8000	105⅜	105⅝	+⅛	4.61
Denmark 5½ 98 FFr	7000	103½	103⅝	+⅛	3.88
Elec de France 8¾ 22 FFr	3000	127⅜	127⅝	+½	6.50

FLOATING RATE NOTES

	Issued	Bid	Offer	C.cpn
Abbey Natl Treasury -1/16 99	1000	99.93	100.00	5.7500
Argentaria Global Fin 0 01	700	99.74	99.82	5.8164
Cades -1/16 01	2000	99.60	99.66	5.6250
Canada -¼ 99	2000	99.80	99.86	5.5625
CCCE 0 06 Ecu	200	99.73	99.89	4.0625
Commerzbk O/S Fin -⅛ 98	750	99.83	99.90	5.6875
Credit Lyonnais 1/16 00	300	98.38	98.88	5.7500
Dresdner Finance 1/32 98 DM	1000	99.99	100.04	3.2500
Fed Nat Mort -3/16 00	1000	99.77	99.85	5.3672
Finland -⅛ 99	1500	99.99	100.03	5.6875
Halifax BS 0 98	500	100.05	100.13	5.8125
IMI Bank Intl ¼ 99	500	100.34	100.41	6.0625
Italy 1/16 99	1500	100.30	100.35	5.9023
Italy ⅛ 98 Ecu	1500	100.18	100.25	4.3125
LKB Baden-Wuert Fin -⅛ 98	1000	99.94	100.00	5.8750
Lloyds Bank Perp S 0.10	600	90.56	91.31	5.6938
Malaysia 1/16 05	650	99.75	100.00	6.0625
Nova Scotia 3/16 99	500	99.96	100.05	6.0312
Ontario 0 99	2000	100.14	100.20	5.8125
Portugal 1/16 99 DM	2500	100.27	100.32	3.3086
Quebec Hydro 0 99	500	99.85	99.94	5.8164
Renfe 0 98	500	99.90	100.00	5.8750
Spain -1/16 02 DM	2000	100.04	100.10	3.0938
State Bk Victoria 0.05 99	125	99.95	100.07	5.9582
Sweden -⅛ 01	2000	100.02	100.07	5.7188
United Kingdom -⅛ 01	2000	99.90	99.94	5.5625

CONVERTIBLE BONDS

	Issued	Conv. Price	Bid	Offer	Prem.
Allied-Lyons 6¾ 08 £	200	6.04	97½	98¾	+35.38
Fuji Intl Finance ¼ 02 Y	250000	2002	101¾	102¾	+23.48
Gold Kalgoorlie 7½ 00	65	1.9238	104½	106	+36.56
Grand Metropolitan 6½ 00	710	4.37	142½	143½	-1.32
Hong Kong Land 4 01	410	31.05	91¼	92	-6.35
Land Secs 6¾ 02 £	84	8.72	125	128	-3.17
Lasmo 7¾ 05 £	90	5.64	98¼	99¼	
MBL Intl Fin 3 02	2000	22	108⅛	109⅛	+2.00
Mitsui Bank 2⅝ 03	300	2332.8	91	92	
Pennzoil 4¾ 03	600				
Sainsbury 8½ 05 £	200	3.37	119¼	120	+8.08
Sandoz Capital 2 02	750	1230.53	149½	150½	+65.93
Sappi BVI Finance 7½ 02	250	75	95	96	
Sapporo 1⅜ 00 Y	40000	1059.4	100¾	101½	+33.91
Sumitomo Bank 3⅛ 04	300	3606.9	92¼	93¼	+44.28
Sun Alliance 7¼ 08 £	155	3.9	123	124	+30.71
Transatlantic Hldgs 5½ 09 £	250	6.05	98½	99½	+42.56

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (‡three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas Cnv 7pc 1997‡‡		7.00	6.45	100⅛	—	101⅛	100⅛
Treas 8¾pc 1997‡‡		8.72	6.42	100⅜	—	107⅝	100⅜
Exch 15pc 1997		14.63	6.62	102⅞	—	111⅛	102⅛
Exch 9¾pc 1998		9.60	6.73	101⅝	—	105⅜	100⅞
Treas 7¼pc 1998‡‡		7.23	6.88	100⅜	—	109⅝	100¼
Treas 15½pc '98‡‡		14.09	6.92	109⅝	—	118⅝	109⅝
Exch 12pc 1998		11.27	6.94	109½	+⅛	111⅝	105⅞
Treas 9½pc 1999‡‡		9.17	6.97	103⅝	+⅛	108¾	97⅝
Treas Flg Rate 1999‡‡		-	-	100⅛	+⅛	100⅜	99⅞
Exch 12¼pc 1999		11.30	6.97	108⅜	—	113⅛	103⅞
Treas 10½pc 1999		9.90	6.85	106⅛	+⅛	110⅝	106
Treas 6pc 1999‡‡		6.10	6.97	98⅜	+⅛	99¼	96⅝
Conv 10¼pc 1999		9.58	6.99	107	+⅛	118⅝	108⅜
Treas 8½pc 2000		8.21	7.04	103⅝	+⅛	104⅛	103⅛
Conv 9pc 2000‡‡		8.59	7.00	104¼	+⅛	107½	103⅞
Treas 13pc 2000		11.21	7.05	115⅝	+⅛	120⅛	115⅝
Treas 14pc 1998-1		13.21	6.87	106	+⅛	113⅛	108
Treas 8pc 2000‡‡		7.77	6.89	103	+⅛	104⅝	102
Treas Flg Rate 2001		-	-	100⅛	—	100⅛	99⅞
Treas 10pc 2001		9.15	7.06	109¼	+⅛	112⅞	99⅞
Conv 9½pc 2001		8.77	7.09	108⅝	+⅛	109⅜	107⅛
Conv 9¾pc 2001		8.91	7.08	109⅝	+⅛	110⅝	106½
Treas 7pc 2001‡‡		7.01	7.01	99⅞	+⅛	101⅛	98⅛
Exch 12pc 1999-2		11.18	7.01	107⅛	+⅛	109⅛	107⅛
Conv 10pc 2002		8.96	7.07	111⅝	+⅛	112⅛	109⅞
Treas 7pc 2002‡‡		7.00	6.98	100⅛	+⅛	101⅛	97⅞
Five to Fifteen Years							
Conv 9½pc 2002		8.64	7.08	109⅞	+⅛	110⅞	106⅛
Treas 9¾pc 2002		8.76	7.07	111⅜	+⅛	122¼	109½
Exch 9pc 2002		8.30	7.09	108⅞	+⅛	109¾	106⅞
Conv 9¾pc 2003		8.67	7.09	112½	+⅛	113⅛	110⅜
Treas 8pc 2003‡‡		7.65	7.02	104⅝	+⅛	103⅜	101¼
Treas 13¾pc 2000-3		11.64	7.06	118⅛	+⅛	119⅞	117⅝
Treas 10pc 2003		8.74	7.07	114⅛	+⅛	116⅝	111⅞
Treas 11½pc 2001-4		10.08	7.08	114⅝	+⅛	121⅝	113⅝
Treas 10pc 2004		8.65	7.08	115⅝	+⅛	116⅞	113
Funding 3½pc 1999-4		4.03	5.83	86⅞	+¼	87⅛	80⅛
Conv 9½pc 2004		8.34	7.03	113⅞	+⅛	114⅞	106⅞
Treas 6¾pc 2004‡‡		6.85	6.98	96⅝	+⅛	99⅛	93⅛
Conv 9½pc 2005		8.29	7.09	114⅞	+⅛	122⅜	109⅜
Exch 10½pc 2005		8.66	7.05	121¼	+⅛	121⅞	117⅛
Treas 12½pc 2003-5		9.81	7.08	127⅛	+⅛	129⅜	124⅜
Treas 8½pc 2005‡‡		7.78	7.01	109⅛	+⅛	109⅞	103⅜
Conv 9¾pc 2006		8.24	7.05	118⅛	+⅛	118⅜	113⅜
Treas 7½pc 2006‡‡		7.26	7.01	103⅛	+⅛	103⅝	96⅛
Treas 7¾pc 2006‡‡		7.40	7.03	104⅝	+⅛	107¼	97½
Treas 8pc 2002-6‡‡		7.73	7.16	103⅝	+⅛	104⅞	100⅛
Treas 11¾pc 2003-7		9.71	7.10	121	+⅛	123⅛	115⅞
Treas 8½pc 2007‡‡		7.70	7.04	110⅜	+⅛	111⅛	103⅛
Treas 7¼pc 2007‡‡		7.12	6.99	101⅞	+⅛	102⅜	95⅞
Treas 13½pc 2004-8		10.11	7.12	133⅛	+⅛	134⅛	131⅝
Treas 9pc 2008‡‡		7.82	7.03	115⅛	+⅛	115⅞	103⅜
Treas 8pc 2009		7.44	7.05	107⅜	+⅛	107¾	99⅜
Treas 6¼pc 2010‡‡		6.73	7.07	92⅞	+⅛	95⅝	83⅛
Conv 9pc Ln 2011‡‡		7.69	7.06	117	+⅛	117⅝	106⅝
Over Fifteen Years							
Treas 9pc 2012‡‡		7.66	7.07	117⅞	+⅛	118	105½
Treas 5½pc 2008-12‡‡		6.27	6.81	87⅞	+⅛	87⅞	77⅛
Treas 8pc 2013‡‡		7.35	7.06	108⅝	+⅛	109¼	97⅛
Treas 7¾pc 2012-15‡‡		7.31	7.08	106⅛	+⅛	106⅛	94⅜
Treas 8pc 2015‡‡		7.27	7.02	109⅝	+⅛	109⅝	97⅛
Treas 8¾pc 2017‡‡		7.42	7.06	117⅞	+⅛	117⅞	103⅛
Exch 12pc 2013-17		8.16	7.10	147⅛	+⅛	147⅛	138⅛
Treas 8pc 2021‡‡		7.18	7.00	111⅜	+⅛	111⅜	98⅜
Undated							
Consols 4pc		7.39	-	54⅛	-⅛	54⅞	47⅛
War Loan 3½pc‡‡		7.08	-	49⅜	+⅛	49⅜	42⅛
Conv 3½pc '61 Aft		5.28	-	66⅜	+⅛	66⅜	59⅞
Treas 3pc '66 Aft		7.46	-	40⅛	+⅛	40⅛	35⅛
Consols 2½pc		7.10	-	35⅛	+⅛	35⅛	30⅛
Treas. 2½pc		7.24	-	34⅛	+⅛	34⅛	29⅛

Index-Linked	Notes (b)	Yield (1)	Yield (2)	Price £	+ or -	52 week High	52 week Low
4⅜pc '98‡‡	(135.6)	-	2.84	114⅛	+⅛	114⅛	113⅛
2½pc '99		1.95	3.07	182⅛	+⅛	182⅛	179⅛
2½pc '01	(78.3)	2.87	3.52	187⅛	+⅛	187⅛	180⅛
2½pc '03	(78.8)	3.08	3.55	183⅝	+⅛	184⅛	175⅛
4⅜pc '04‡‡	(135.6)	3.12	3.53	118⅝	+⅛	120⅛	114⅛
2pc '06	(69.5)	3.23	3.54	193⅛	+⅛	195⅛	188⅛
2½pc '09	(78.8)	3.28	3.53	174⅛	+⅛	176⅛	164½
2½pc '11	(74.6)	3.32	3.55	180⅛	+⅛	183⅛	169⅛
2½pc '13	(89.2)	3.35	3.55	149⅛	+⅛	150⅛	139⅝
2½pc '16	(81.6)	3.37	3.56	159⅛	+⅛	161⅛	148⅝
2½pc '20	(83.0)	3.43	3.58	153⅛	+⅛	154⅛	141⅛
2½pc '24‡‡	(97.7)	3.44	3.58	127¼	+⅛	128⅛	117¾
4⅛pc '30‡‡	(135.1)	3.43	3.57	124⅛	+⅛	126⅛	116⅛

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for October 1996: 153.8 and for May 1997: 156.9.

Other Fixed Interest

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Asian Dev 10¼pc 2009		8.39	7.39	122⅛	—	123⅛	114⅛
B'ham 11½pc 2012		8.75	7.98	131½	—	132½	122⅛
Leeds 13½pc 2006		9.82	-	137½	—	139½	131½
Liverpool 3½pc Irred		8.33	-	42	—	45	37½
LCC 3pc '20 Aft		8.11	-	37	—	39	32½
Manchester 11½pc 2007		9.09	7.78	126½	—	127½	120
Met. Wtr 3pc 'B'		3.68	6.55	82	—	83	75½
N'wide Anglia 3¾pc 2021		-	4.03	144⅜	—	147⅛	138½
4⅛pc IL 2024		-	4.41	138⅛	—	142⅛	133

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. £ Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

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CURRENCIES AND MONEY

The pound soars on "loose" Budget

MARKETS REPORT

By Simon Kuper

The pound soared more than 5 pfennigs against the D-Mark after yesterday's UK Budget, as economists took the view that the document did too little to rein in consumer spending.

Sterling hit DM2.939 to the D-Mark in late trading yesterday, 5.4 pfennigs above Tuesday's London close. Against the dollar sterling was at $1.678, a 2 cent gain.

Mr Gordon Brown, the UK chancellor, tightened UK fiscal policy by a net £4.75bn. This was near the market forecast, but it increased prospects that the Bank of England's monetary policy committee would raise interest rates. Most economists expect a rise after next week's committee meeting.

The pound surged even though Mr Brown surprised traders by expressing concern at its 20 per cent rise since last August. He said he hoped his Budget would forestall the need for further interest rate rises, which would push sterling even higher and hurt exporters.

The Thai baht fell 17 per cent after Thailand allowed the besieged currency to float, despite pledging often that it would not do so. The Bank of Thailand said it had decided to let "the value of the baht be determined by market forces to reflect fundamental economic forces".

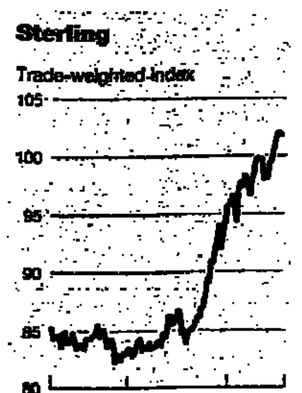
The offshore baht rate fell from around Bt24.5 to the dollar on Tuesday night to Bt28.8. The onshore domestic rate, still protected by exchange controls, was Bt28.

The baht had been under attack since April, with speculators drawn by Thailand's current account deficit, slowing economy and fragile banking sector. Thailand had fended off previous attacks with the support of other Asian central banks, which had hoped to avert spillover assaults on their own currencies. But Thai interest rates had remained unsustainably high in order to maintain the defence. Yesterday the central bank raised its discount rate by 2 percentage points to 12.5 per cent. But it said it hoped rates would eventually fall.

The baht's surrender prompted attacks on the Philippine peso, but the Philippine central bank spent heavily defending its currency – for the moment, successfully. It also raised its overnight bank rate from 15 per cent to 24 per cent. Volume hit a record $1.049bn, with the peso closing at 26.376 to the dollar. Malaysia's Bank Negara intervened under its own name to support its currency.

Sterling

Trade-weighted index



Source: Datastream

■ The UK money market scaled up its forecasts of future base rate rises. Short sterling futures contracts, which effectively bet on the expected level of base rates, fell for all maturities. The September 1998 contract dropped 17 basis points and is now pricing in base rates of nearly 7.50 per cent, compared with today's level of 6.50 per cent.

Strategists said the pound's next target was DM2.95 to the D-Mark, its pre-1992 central rate within the European exchange rate mechanism. Mr Michael Petley, technical analyst at the ECU Group in London, said the pound would hit DM3.00 "very quickly".

■ Most in the market thought Thailand had had little choice but to devalue. Mr David Simmonds, emerging markets economist at Citibank in London, said: "It's good to go for a floating currency rather than to try piecemeal tinkering with the old regime." But he said Thailand would want the baht to rise soon, to reduce the value of its large foreign debt. Mr Richard Gray, emerging markets analyst at Bank of America in London, said the debt size meant the devaluation was "not much of a panacea" for Thailand. He said the country had spent about $7bn defending the baht.

He warned: "You will see pressure coming particularly on the Korean won." Korea competes with Thailand on many clothes and electronics exports to the West. The Hong Kong dollar was as blissfully unaffected by the baht's fall as it had been by the handover of Hong Kong to China.

■ As expected, the Federal Reserve left US interest rates unchanged after yesterday's Open Market committee meeting. The dollar was at DM1.749 to the D-Mark and Y114.3 to the yen late yesterday, up 0.9 pfennigs and down Y0.5 on Tuesday's London close.

■ Pound in New York

Jul 2	—Latest—	— Prev. close —
£ spot	1.6705	1.6585
1 mth	1.6690	1.6571
3 mth	1.6660	1.6540
1 yr	1.6508	1.6410

■ OTHER CURRENCIES

Jul 2	£	$
Czech Rp	53.5063 - 53.6064	32.4320 - 32.4730
Hungary	310.380 - 310.831	188.120 - 188.170
Iran	4952.40 - 4949.40	3000.00 - 3000.00
Kuwait	0.4984 - 0.4999	0.3027 - 0.3028
Poland	5.4229 - 5.4311	3.2870 - 3.2900
Russia	9535.84 - 9543.27	5780.00 - 5781.00
U.A.E.	6.0594 - 6.0634	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Jul 2		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.3336	+0.0309	221 - 451	20.4613	20.3132	20.2792	3.2	20.1865	3.3	19.681	3.3	102.4
Belgium	(BFr)	59.6419	+0.0818	908 - 929	60.0000	59.5650	59.4748	3.4	59.1315	3.4	57.5902	3.4	102.1
Denmark	(DKr)	11.0022	+0.0159	972 - 072	11.0725	10.9912	10.9749	3.0	10.9175	3.1	10.668	3.0	104.6
Finland	(FM)	8.6132	+0.0137	049 - 215	8.6680	8.6049	8.5979	3.5	8.5354	3.6	8.3227	3.4	82.0
France	(FFr)	9.7363	+0.0134	325 - 401	9.7994	9.7269	9.7102	3.2	9.6556	3.3	9.4109	3.3	104.7
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jul 2		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
[illegible]													

WORLD INTEREST RATES

MONEY RATES

[illegible]	

EURO CURRENCY INTEREST RATES

[illegible]	

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]	

UK INTEREST RATES

LONDON MONEY RATES

[illegible]	

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]	

BASE LENDING RATES

[illegible]	

COMMODITIES AND AGRICULTURE

Think tank puts forward alternative to CAP

By Maggie Urry

A proposal to replace the Common Agricultural Policy by a fund giving European Union member states the right to decide how to distribute payments to farmers in their own countries has been put forward by the Centre for European Reform, the left-leaning think tank.

The paper suggests this could break the stalemate over CAP reform, a debate which has become bogged down by arguments between countries reflecting national and regional interests.

It would by-pass arguments over issues such as "modulation" – the proposal that small farms should receive proportionately higher support – which has been particularly contentious. Countries having a preponderance of smaller farms are in favour of modulation, while others – such as the UK – where average farm sizes are larger, are against.

Mr Richard Ali, an agricultural economist and author of the paper, said "the CAP has had its successes. But it has also had its time."

Pressure for reform came from a number of directions – taxpayers' concern over the expense of agricultural supports; the EU's Gatt commitments and the next world trade talks, due to start in 1999; and the accession of eastern European states to the EU, which could increase the CAP budget by 30 per cent.

Mr Ali's proposes that funds currently used for support payments under the CAP would go into a Common Agricultural Fund. Each member state would receive allocations based on its past receipts and could distribute money according to its priorities.

Only the existing member states would be included, while money for any new EU members would come from a separate budget. The one proviso would be that funds could not be used for "trade-distorting" policies. These would not be allowed under world trade agreements. Intervention buying would be abolished and payments decoupled from production.

Mr Ali concludes that such a fund would not detract from the EU's single market and would meet its world trade obligations. Further it would make EU farmers more able to compete in the world market as they would adjust their production based on real demand rather than according to subsidies.

A Common Agricultural Fund: Breaking the CAP Stalemate, by Richard Ali. Centre for European Reform, 11 Carteret Street, London SW1H 9DL. Tel + 44 171 233 1199

CME cuts 10% of jobs in shake-up

By Laurie Morse in Chicago

The Chicago Mercantile Exchange, reeling from consolidation in its eurodollar pit and recovering from a year of depressed volume, yesterday cut its staff by more than 10 per cent and announced a restructuring expected to reduce its operating budget by $17m a year.

The exchange also said it would eliminate a number of its trading fees for the remainder of the year to stimulate business.

The CME last year had revenues of $164.3m and operating income of $10.7m.

An exchange spokeswoman said approximately 100 jobs were being cut and that the redundancies were effective immediately.

The cuts are the first significant downsizing at a leading US futures exchange for more than 20 years.

The CME last year fell to third in the rankings of global futures exchanges, behind the Chicago Board of Trade and the London International Financial Futures Exchange, in part because a long period of stable short-term interest rates has limited participation in listed eurodollar futures and options trading.

While the derivatives industry continues to expand globally, US exchanges are lagging behind, suffering from mature markets and money managers' growing interest in non-dollar, non-US investments.

The CME board approved the restructuring on Tuesday, but the staff cuts had been anticipated since January, when Mr Leo Melamed, a long-time CME leader, returned to power at the exchange. Mr Melamed has repeatedly called the CME staff budget "bloated".

Cocoa prices continue to fall

MARKETS REPORT

By Robert Corzine and Maggie Urry

Cocoa prices retreated in London, and fell sharply in morning trade in New York. A drop in New York late on Tuesday fed through to the London market when it opened and attracted some trade selling, traders said.

On the London International Financial Futures Exchange, the July cocoa contract closed down £46 to £1,095 a tonne. In New York, dealers said prices slid after critical chart points were breached, encouraging speculative traders to cut long positions. Lower prices attracted some buying from manufacturers.

In Chicago, the soon-to-expire July soyabean contract fell sharply in fast morning trading. The price fell by 9 cents a bushel to 723 cents on rumours that a commercial firm planned a large physical delivery against the contract.

The latest oil rally showed signs of petering out yesterday in spite of bullish inventory data from the US, the world's largest oil consumer, but prices later rebounded ahead of the long holiday weekend in the US.

The price of the bellwether Brent Blend for August delivery was trading in London late yesterday at about $18.89 a barrel, nine cents up on Tuesday's settlement price. On Monday Brent rose by 33 cents a barrel, and by 29 cents on Tuesday, largely on the realisation that Iraq is unlikely to resume oil exports under the UN oil-for-food programme until August.

Traders said profit-taking by speculative investors after two days of solid increases acted as a damper on yesterday's prices.

The US data showed that crude oil stocks had fallen by 5.7m barrels over the past week, while gasoline stocks were down by 1.5m barrels. Such a fall in gasoline stocks – at a time of high demand due to the summer driving season – would have bolstered the crude market in recent weeks. But traders said it was relatively late for such a modest drop to have a big effect on prices. Others said the fall in crude stocks had already been factored into the oil price.

Gold prices continued to suffer from bearish market sentiment, brought about in part by a slump in physical demand for the metal. Gold fell to $332.10-$332.60 an ounce from $333.40-$333.90 at the London close, although that was above the morning fix, which at $331.45 was the lowest since March 1993.

Zinc prices continued to rally, closing $26 up in London at $1,463 a tonne.

Gold scandal tarnishes prospects

Bre-X affair may be hampering companies' exploration efforts in central Asia

The shock waves from Indonesia's Bre-X scandal have reverberated through gold-producing regions around the world. Even central Asia, a remote region with some of the greatest gold potential in the world, may be affected by the difficulty of raising capital in North America as a result of the Bre-X affair.

"Any other time we would have just walked right into the stock market," says Mr Ken Taylor, chief financial officer of Oxus Resources, a mining company with operations throughout central Asia.

Before Bre-X, Oxus had dreams of obtaining a stock market listing on its own. But it had also arranged a fall-back. Last month, Oxus announced it had sold a 21 per cent stake to La Source SAS, part of Normandy Mining Group of Australia.

In the wake of Bre-X, finding finance on the stock exchange has become difficult, which may lead to a greater role in emerging markets such as central Asia for the "majors" such as Normandy. "It was like getting an independent due diligence," says Mr Taylor, adding that the company still plans an initial public offering sometime in September.

"Unquestionably the Bre-X affair has had an affect on the financing possibilities for small companies," says Mr William Hussey of Kazminco, one of the most active mining companies in Kazakhstan.

Great expectations: Before Bre-X, Oxus Resources says it could have 'walked right into the stock market'

One-quarter of the $1bn invested in central Asian gold projects since the break-up of the Soviet Union has been generated directly from the Vancouver and Toronto stock exchanges. This source of funding may be in jeopardy as investors decide that company projects in remote regions are too risky.

"Bre-X damaged the integrity of the Canadian stock exchanges and damaged the integrity of small mining companies," says Mr Hussey.

Even more worrying for central Asia, which is relatively unexplored, is that a disproportionate amount of the capital used to fund prospecting comes from the stock exchanges.

Typically, there is a division of labour between the market-funded juniors who find the gold, and the big companies who produce it.

"The job of a junior is to turn a small project into a large one and then a major will want it," says Mr Roger Turner, managing director of Oxus. Mr Hussey describes the juniors as "snow-ploughs for the big companies".

Kazakhstan may be particularly affected if funding for gold exploration is threatened. The country can boast sizeable gold potential, such as Bakyrchik, the 12th-largest gold deposit in the world, but no projects so far worthy of investment by the big companies, which typically consider projects producing 150,000 oz or more a year.

"Bre-X will potentially affect Kazakhstan more than other central Asian countries, because Kazakhstan has relatively few large projects in production. Most of Kazakhstan, which is a huge territory, is still in exploration," says Mr Alexander Lesser, an US lawyer who advises foreign mining companies.

Three projects by big companies account for three-quarters of the investment in central Asia's gold production. They are Newmont, with a 300,000 oz a year operation at Morentau, in Uzbekistan; Nelson Gold, which produces 80,000 oz a year from the Zeravshan project, in Tajikistan; and Cameco, which extracts 500,000 oz a year at Kumtor mine, in Kyrgyzstan. Together, investment by these three companies since the break-up of the Soviet Union totals some $700m.

Charles Clover

See UK Company News

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1583.5-84.5	1606-07
Previous	1585-6	1607-8
High/low		1618/1606
AM Official	1585-6	1607-8
Kerb close		1610-11
Open int.	262,204	
Total daily turnover	65,608	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1430-40	1455-65
Previous	1420-30	1450-60
High/low		1470/1460
AM Official	1430-40	1455-65
Kerb close		1458-63
Open int.	5,474	
Total daily turnover	1,493	

■ LEAD ($ per tonne)

Close	617-18	629-30
Previous	626-7	638-9
High/low		638/627
AM Official	621-1.5	634.5-5.0
Kerb close		632-33
Open int.	35,945	
Total daily turnover	10,816	

■ NICKEL ($ per tonne)

Close	6795-805	6900-10
Previous	6820-30	6930-40
High/low		6980/6840
AM Official	6800-02	6920-25
Kerb close		6940-50
Open int.	53,706	
Total daily turnover	26,282	

■ TIN ($ per tonne)

Close	5485-95	5535-40
Previous	5490-500	5543-48
High/low		5540/5490
AM Official	5475-85	5515-20
Kerb close		5530-35
Open int.	13,841	
Total daily turnover	4,191	

■ ZINC, special high grade ($ per tonne)

Close	1450-52	1455-57
Previous	1438.5-9.5	1440.5-1.5
High/low		1463/1443
AM Official	1448-50	1451-2
Kerb close		1463-64
Open int.	95,801	
Total daily turnover	41,680	

■ COPPER, grade A ($ per tonne)

Close	2609-11	2377.5-78.5
Previous	2637-42	2403-5
High/low	2522	2400/2368
AM Official	2620-22	2389.5-90.5
Kerb close		2390-91
Open int.	153,270	
Total daily turnover	69,416	

■ LME AM Official £/$ rate: 1.6698
LME Closing £/$ rate: 1.6665
Spot: 1.6594 3 mths: 1.6539 6 mths: 1.6493 9 mths: 1.6442

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	113.60	+1.45	113.70	110.70	896	7,133
Aug	112.60	+1.65	112.70	109.60	1,205	3,583
Sep	111.90	+1.65	112.45	109.50	6,818	23,443
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

	$ price	£ equiv	SFr equiv
Gold(Troy oz)			
Close	332.10-332.60		
Opening	332.00-332.40		
Morning fix	331.45	199.717	485.74
Afternoon fix	332.15	200.211	485.593
Day's High	332.40-332.80		
Day's Low	331.30-331.70		
Previous close	333.40-333.90		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	3.71	6 months	3.84
2 months	3.73	12 months	3.95
3 months	3.78		

Silver Fix	p/troy oz.	US cts equiv.
Spot	279.80	464.50
3 months	283.85	469.95
6 months	288.10	475.65
1 year	296.50	487.10

Gold Coins	$ price	£ equiv.
Krugerrand	332-334	201-203
Maple Leaf		
New Sovereign	78-81	47-49

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	331.3	-2.7	331.8	331.8	-	3
Aug	332.3	-2.8	335.5	332.1	28,133	102k
Oct	334.5	-2.9	336.1	334.4	988	8,581
Dec	336.7	-3.0	338.8	336.5	7,387	30,034
Feb	339.0	-3.0	340.5	339.2	517	9,358
Apr	341.2	-3.1	343.0	342.3	152	4,839
Total					39,440	198,108

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	417.2	-3.7	420.0	415.0	189	2,254
Oct	406.7	-5.2	415.0	403.0	1,765	11,255
Jan	398.7	-5.2	402.0	400.0	135	1,842
Apr	398.7	-5.2	396.0	398.0	2	130
Total					2,091	15,481

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	174.50	-1.80	176.00	173.00	323	5,588
Dec	165.50	-3.80	-	-	24	755
Jan	166.00	-3.80	-	-	-	105
Total					347	6,448

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	460.1	-3.2	464.5	462.0	2,215	3,730
Sep	464.5	-3.3	470.0	464.0	12,619	57,383
Dec	471.4	-3.3	475.5	471.0	402	13,970
Jan	473.3	-3.3	-	-	-	18
Mar	478.3	-3.3	483.5	478.5	15	8,979
May	482.5	-3.3	486.5	485.5	18	2,855
Total					15,270	93,480

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	20.14	+0.02	20.20	19.91	50,566	85,184
Sep	20.15	+0.03	20.20	19.92	29,047	52,673
Oct	20.15	+0.06	20.17	19.91	9,213	30,663
Nov	20.15	+0.09	20.15	19.94	3,705	19,088
Dec	20.15	+0.11	20.15	19.91	8,163	39,252
Jan	20.06	+0.01	20.06	19.99	2,141	18,545
Total					107,268	393,391

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.78	-0.02	18.78	18.50	15,474	67,733
Sep	18.84	+0.03	18.84	18.59	7,929	51,618
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	82.00	-1.50	83.00	82.00	16	232
Sep	84.25	-0.15	-	-	-	177
Nov	86.25	-0.40	86.50	86.00	61	3,797
Jan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	90.25	-0.35	90.25	90.00	11	967
May	92.25	-0.35	-	91.75	1	577
Total					[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel) — [illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel) — [illegible]

■ BARLEY LIFFE (100 tonnes; £ per tonne) — [illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel) — [illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb) — [illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton) — [illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne) — [illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point) — [illegible]

FUTURES DATA
All futures data supplied by CMS.

Nuts and seeds
[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne) — [illegible]

■ COCOA CSCE (10 tonnes; $/tonnes) — [illegible]

■ COCOA (ICCO) (SDR's/tonne) — [illegible]

■ COFFEE LIFFE (5 tonnes; $/tonne) — [illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs) — [illegible]

■ COFFEE (ICO) (US cents/pound) — [illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne) — [illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs) — [illegible]

■ COTTON NYCE (50,000lbs; cents/lbs) — [illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs) — [illegible]

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100) — [illegible]

■ CRB Futures (Base: 1967 = 100) — [illegible]

■ GSCI Spot (Base: 1970 = 100) — [illegible]

LME WAREHOUSE STOCKS (tonnes) — [illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs) — [illegible]

■ LEAN HOGS CME (40,000lbs; cents/lbs) — [illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs) — [illegible]

LONDON TRADED OPTIONS

■ ALUMINIUM (99.7%) LME — [illegible]

■ COPPER (Grade A) LME — [illegible]

■ COFFEE LIFFE — [illegible]

■ COCOA LIFFE — [illegible]

■ BRENT CRUDE IPE — [illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) — [illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne) — [illegible]

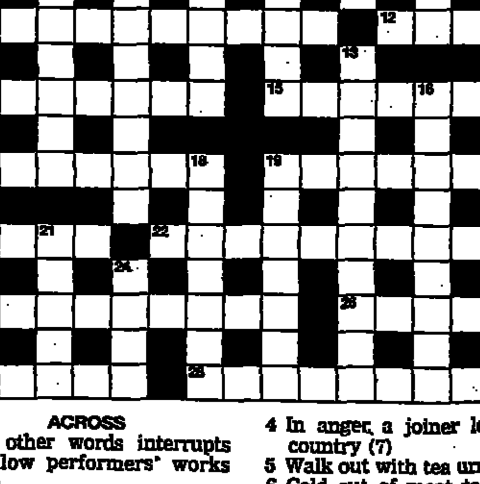
■ NATURAL GAS (Pence/therm) — [illegible]

■ OTHER — [illegible]

JOTTER PAD

CROSSWORD

No.9,417 Set by GRIFFIN



ACROSS
1 In other words interrupts fellow performers' works (9)
6 Fur firm turned up and said why (5)
9 Normal American university takes top-level student (5)
10 Scoffed after Euclid bothered to explain (9)
11 Amateur Italian poet has wrong title inserted (10)
12 Back street artist backs emperor (4)
14 A number one's to ring twice (7)
15 Refuse to change bib during race (7)
17 Job Centre in New Street finds favour (7)
19 Pleasantly tiny model set in arch (7)
20 There being no parking arrest creep (4)
22 Redevelopment of sites can, as requiring help (10)
25 Working on a plot? (9)
26 Utter depravity ought to be suppressed (5)
27 Castle with no king? My that's spacious: (5)
28 The most slick butcher gets a rise (9)

DOWN
1 Store admitting nothing's supplied (5)
2 Those joining the train? (9)
3 Old boy learned to wipe out (10)
4 In anger, a joiner left the country (7)
5 Walk out with tea urns (7)
6 Cold cut of meat taken to bed (4)
7 Man overlooked many listeners for ages (5)
8 Early hunt abandoned as unreasonable (9)
13 Aims to find body, a Cornish saint (10)
14 Hard to grin and bear broadcast by announcer (9)
16 Demanding home numbers, four with a key (9)
18 Turning up and making sure ringleader's gone (7)
19 Haircut unmarried hairdresser first introduced (7)
21 Inquisitive American dropped rare article (5)
23 Balanced first time? It happens! (5)
24 Refuse in garden you must shift (4)

Solution 9,416

LEVANT BELIEF
I A E R L I
UNKNOWN DECLINE
E I S O C I A
UNPLEASANT CANT
L G F I C
CRAVE FIRSTAID
U N O E E
ESCORTED CIGAR
T F I K H
COIF SILHOUETTE
D H P S N R A
VITAMIN HICKORY
A N K N I R
NUDGES AGENCY

FT MANAGED FUNDS SERVICE

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

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	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
American Phoenix Investment Portfolios (u)					
13 rue Goethe, L-1637 Luxembourg 00 352 404646211					
European Multinational Pfolio		Ecu23.83		+0.04	-
European Multinational Pfolio		$26.81		+0.04	-
European Multinational Pfolio		£16.15		+0.02	-
European Multinational Pfolio		L45561		+66	-
European Multinational Pfolio		DM46.01		+0.07	-
Global Multinational Pfolio		Ecu21.90		+0.18	-
Global Multinational Pfolio		$24.65		+0.15	-
Global Multinational Pfolio		£14.85		+0.12	-
Global Multinational Pfolio		L41878		+257	-
Global Multinational Pfolio		DM43.03		+0.28	-
US Growth Companies		$16.63		+0.73	-
US Growth Companies		£10.02		+0.08	-
US Growth Companies		L28258		+223	-
US Growth Companies		DM29.04		+0.22	-
US Real Estate Securities		$15.50		+0.05	-
US Real Estate Securities		£9.34		+0.03	-
US Real Estate Securities		L26339		+87	-
US Real Estate Securities		DM27.07		+0.09	-
BAII Asset Management Ltd					
10 Piccadilly, London W1V 0EE 0171 734 3700					
Foreign & Colonial Portfolios Fd Sicav(m)					
33 Boulevard Prince Henri, L-1724 Lux 00 352 2266 211					
Asn Smlr Cos Eq F		$42.05		-0.09	-
Japanese Smlr Cos Eq F		Y920.00		+1.00	-
European Smlr Cos Eq F		Ecu17.74		-0.03	-
Emerging Asian Eq F		$22.83		+0.20	-
Sterling Beta F		£10.12		-0.01	-
Sterling Distribution F	5	£9.46		-0.01	-
Frontrunner I (r)					
Nikko Global Umbrella Fund					
16 Bld Royal, L-2449 Luxembourg 00 44 171 222 2326					
Japan Rel Rev YEN		Y903	910	—	-
Japan Rel Rev USD		$7.89	7.95	—	-
Japan Rel Rev Stg		£4.76	4.80	—	-
Nomura Global Fund (m)					
PRICOA Worldwide Inv Portfolio Sicav (m)					

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

صكنا من الاجل

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Isle of Man) Ltd				
Victory Hse, Prospect Hill, Douglas, IoM 01624 663063				
Distribution Fund-Deferred	53.45		+0.24	–
Distribution Fund-Quarterly	53.05		+0.14	5.44
Distribution Fund-Half Yearly	53.35		+0.14	5.54
European Equity	176.66	188.66	+0.28	–
Far Eastern Equity	$2.0874	2.2122	-0.0039	–
North American Equity	$1.7238	1.8554	-0.0248	–
UK Equity	192.47	208.95	+0.09	–
UK Gilt & Fixed Int	125.84	133.41	+0.52	–
Dollar Deposit	$0.7849	0.8439	+0.0001	–
Sterling Deposit	111.73	120.13	+0.02	–
International Managed	153.45	164.89	+0.06	–
PanEuroLife societe anonyme				
3a Av Marie-Therese, Luxembourg 00 352 458730				
French Balanced Jul 2	FFr6141.91		+100.68	–
German Balanced Jul 2	DM3813.18		+22.08	–
Global Equities Jul 2	$1621.45		+4.06	–
UK Secure Gth Jul 2	£886.78		+9.73	–
US Secure Growth Jul 2	$1412.58		+10.56	–
Intl Real Estate Jul 2	Ecu1787.15		+8.29	–
Fund of Funds Jul 2	Ecu1568.50		+9.50	–
USD 2004	$530.73		+2.16	–
Premier Life				
Developmnt Chdwick £ Fd	£1.350	1.450	–	–
Mainstream £ Pens	£1.100	1.170	–	–
Mainstream $ Pens	$1.060	1.130	–	–
Argent Bond	£16.620	17.790	–	–
Argent Equity Gth	£19.290	20.650	–	–
CH 10	SFr1.88	2.00	–	–
LX 10	$1.98	2.02	–	–
Professional Investment Consultants				
Premier Lux $	$1.470	1.540	–	–
Premier Lux £	£1.410	1.470	–	–
PIC Worldwide Opps	£1.330	1.430	–	–
PRLA Flexible Growth	$1.020	1.105	-0.005	–
Royal Life International				
Royal Court, Athol St, Castletown IoM 01624 821212				

	Selling Price	Buying Price	+ or -	Yield Gross
Apax Bank & Trust Company				
GCM Intl Convertible (DEC)	$1338.74		–	–
GCM Intl Fixed Income (DEC)	$1143.54		–	–
GCM Intl Equity (DEC)	$738.12		–	–
GCM Intl High Yield	$1011.13		–	–
Aravis Capital Advisers LLC				
Aravis Capper Ltd	$134.21		–	–
Arc Investment Company Ltd				
Arisaig Partners (BVI) Ltd				
NAV	$10.76		–	–
Arnfield-Harmon Investment Management Inc				
Royce Hedge Fd Ltd	$634.63		–	–
Arnhold and S. Bleichroeder, Inc				
Eagle Select Fund Ltd	$1124.78		–	–
Global Leverage-Class A	$132.88		–	–
Asia Pacific Capital Strategies Fund				
NAV Jun 23	$7.9458		–	–
Asia Pacific Securities Corp Ltd				
Asian Convertibles & Income Fd (Cayman)				
NAV Jun 20	$14.18		–	–
Atlantico Investment Ltd				
Atlantis Fund Management (Guernsey) Ltd				
Atlas Management Limited				
Managed	$11.20	11.76	–	–
Aurora Funds				
BAS-EX Currency Fund Plc				

OTHER OFFSHORE FUNDS

● MANAGED FUNDS NOTES

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

	Notes	Price	+ or -	52 week high	low	Yld Gr's	NAV	Dis or Pm(-)
Approved by the Inland Revenue								
Atlantic Japan Gwth Fd		460	+6½	708½	369	–	485.5	7.3
Warrants		50	–¼	224¼	38½	–	–	–
Baring Emrg Euro	♣	101½	+1½	101¼	81½	–	107.9	6.2
Warrants		32	+1	62	20½	–	–	–
Boston Smaller Co's		84¼	+½	88¼	65¼	1.8	98.2	14.2
Warrants		48¼	+¼	45¼	27½	–	–	–
Central Euro Gwth	♣	67	...	78	58½	–	75.8	11.6
Warrants		18½	...	21½	10	–	–	–
East German		31½	...	45	30½	–	–	–
Emrg Trust $		1029½	-5	1209	637½	–	49.3	36.1
Fid Recovery Frontiers $	♣	1365	+12½	1369	810	–	1441.8	5.3
Warrants		787½	—	790	330	–	–	–
Warrants B		695		695	475	–	–	–
Five Arrows Chile $		209¼	+1¼	214	182¼	1.6	228.3	9.6
Warrants		39½	—	38	21	–	–	–
Forest Asian Smlr	♣	228	—	289½	209	0.7	281.1	18.9
Warrants		79¼	-½	93¼	55	–	–	–
Korea Sml Asia Co's	♣	72	+¼	75	64	0.3	81.2	11.3
Warrants		21¼		25½	18	–	–	–
Indonesia Fund		409½	+2¼	555½	406½	–	–	–
Warrants		37¼		49¼	37½	–	–	–
Israel Fund $		57¼	+¼	82	37½	–	65.1	11.1
Warrants	♣	14½	–¼	18	7	–	–	–
Korea-Europe $	♣	354½	+3½	527½	354½	0.3	355.1	0.2
Korea Liberal $		295½	+1½	455½	227½	0.6	344.3	14.2
Warrants		37¼	—	113½	37½	–	–	–
Latin American $	♣	153½	+3	153½	98½	–	179.4	14.5
Warrants		91½	+1¼	92½	46¼	–	–	–
Lazard Rits India	♣	44	+½	51½	29½	–	–	–
Warrants		14	+¼	25	8	–	–	–
Schroder Korea Fd $	♣	500	+2½	778½	403½	–	–	–
Warrants $		60½	–½	290	38	–	–	–
Scottish Asian Ptg	♣	251½	+1½	312½	231½	–	291.9	13.8
Warrants		546		678	470	–	–	–
Templeton Central & EE		287¼	+1¼	357½	251½	–	–	–
Warrants		95½	+½	143	1½	–	–	–

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind R		£25	—	*£28½	£27¼	1,915	2.9	φ
Barlow	♣†	£67½	–½	£7½	25½	1,387	2.2	14.0
Gold Flds Prop R	†	180½	+¼	188½	120	18.5	4.8	13.8
SA Brews		£18½	+½	£18½	£13¾	5,508	2.1	φ
Standard Bank		£29½	—	£30	£21	3,580	1.8	φ
Tiger Oats		1082½	-37½	1100	770	1,808	1.8	20.3
Tongaat-Hulett		748	-3½	813	576¼	724.4	2.5	φ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated seperately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- φ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below
- ♯ Rule 4.2(a) Irish incorporated non-listed companies.
- ■ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend yield, p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. R Dividend is paid or since of par as a [illegible]

FD Foreign income dividend. Q Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend paid to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1425 a year for each security shown, subject to the Editor's discretion

The share prices printed on these pages are also available on the Internet at http://www.FT.com.

LONDON STOCK EXCHANGE

Footsie expected to open sharply lower

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

The market's knee-jerk reaction to the first news in the Budget, including the reduction in corporation tax and confirmation of the abolition of the 20 per cent tax credit on dividends, was mildly positive.

The FTSE 100, standing at 4,733.8 when the chancellor started to speak, carried on up as the details unfolded.

It finished Budget day 23.1 higher at 4,751.4 while the FTSE 250 index closed 18.8 ahead at 4,471.3 and the SmallCap nudged up 1.3 to 2,226.9.

Details of the windfall profits tax came after the close but were not seen as too troublesome for the various sectors.

The overall market situation deteriorated after the official close, when the FTSE future was signalling a sharp fall this morning. Gilts were being talked down and dealers were predicting a rise in UK interest rates when the Monetary Policy Committee meets next Thursday.

Before the Budget, London witnessed another frantic performance, which saw share prices kick off in reasonably good heart, sustained by the good showing by Wall Street overnight, before embarking on another sizzling upward run.

In the US, the Dow Jones Industrial Average closed 49 points higher, responding to a firm US Treasury bond market, itself lifted by the day's economic details, which pointed to a slowing in the US economy.

Just as Tuesday's late strength was triggered by a sudden surge of buying activity in the FTSE future, so was yesterday morning's move. Heavy buying of the future brought an instant response from a cash market where marketmakers remained acutely short of stock.

Any attempted buying of stock saw dealers hoist their quotations in an attempt to head off demand.

But the manoeuvre only fuelled further gains across the board with the FTSE 100 looking set to move through its previous all-time intraday high, 4,796.0 reached on June 13, and on through the 4,800 level.

However, the emergence of some hefty profit-taking in futures and the underlying cash market, saw the FTSE 100 stage an abrupt reversal, which saw the index driven down more than 12 points at its worst.

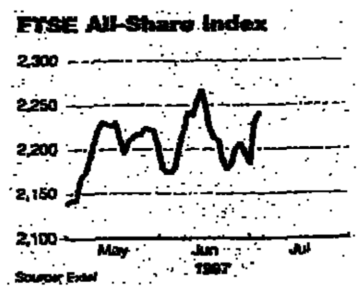
Coming hard on the heels of Tuesday's 123.7 gain, yesterday's big swings were seen as proof that the equity market had been gripped by a severe squeeze.

"The marketmakers have had a bad time of it recently. The rumours of the abolition of the tax credit caught them long of stock in front of a 200-point slide and now we've had this spate of volatility," said one observer.

Wall Street came in little changed yesterday, ahead of the decision by the US Federal Reserve's Open Market Committee on interest rate policy. But it gradually lost ground, and showed a 23-point fall an hour after London closed for business.

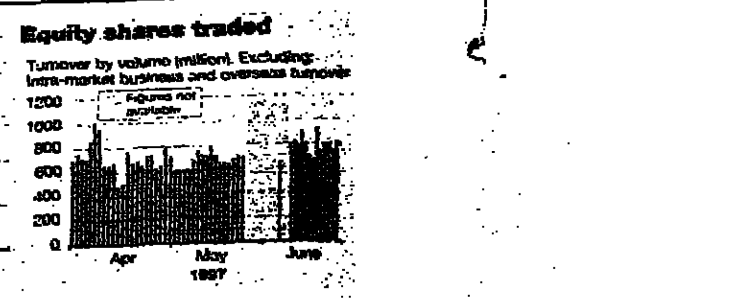
Turnover was predictably affected by the reluctance of the institutions to deal so close to the Budget. At 6pm it reached 728m.

FTSE All-Share Index



Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4751.4	+23.1	FT 30	3056.60	+18.0
FTSE 250	4471.3	+18.8	FTSE Non-Fins p/e	18.93	18.84
FTSE 350	2289.2	+10.9	FTSE 100 Fut Sep	4822.0	+33.0
FTSE All-Share	2240.42	+9.99	10 yr Gilt yield	7.04	7.06
FTSE All-Share yield	3.46	3.48	Long gilt/equity yld ratio	2.05	2.05

Best performing sectors

1. Household Goods ....+2.7
2. Insurance ....+2.6
3. Life Assurance ....+2.4
4. Telecommunications ....+1.6
5. Oil Exploration ....+1.6

Worst performing sectors

1. Textiles & Apparel ....−1.9
2. Electricity ....−1.3
3. Leisure & Hotels ....−1.0
4. Gas Distribution ....−0.8
5. Extractive Inds ....−0.7

Windfall relief in Budget

By Peter John and Martin Brice

Banks, which form the largest sector in the FTSE 100 index, and utilities, which comprise some of the biggest companies, gave a sigh of relief over the UK Budget.

There had been speculation earlier in the day that the chancellor of the exchequer might attack banking profits via tighter taxes. In fact, corporate tax was lowered. And the banks are not expected to be affected by the abolition of tax credits as they have sufficient funds to offset the burden and maintain strong dividends.

Shares prices in the sector had been sharply lower in early trading following widespread profit-taking. But, in the last half-hour of trading, the falls were reduced and many shares ended up. Standard Chartered rose 13¼ to 951p, Abbey National 17 to 862p and National Westminster 10 to 859½p.

Meanwhile, utilities, and particularly the water stocks, maintained their strength as the much-vaunted windfall tax on profits came in at £4.8bn, within the £3bn to £5bn consensus and below the worst case scenario. Severn Trent rose 29 to 839p, South West Water 21¼ to 751p.

A buy note lifted Enterprise Oil following Tuesday's news of a joint venture in the Gulf of Mexico.

Lehman Brothers reiterated its "outperform" stance. It said the deal with Enserch would give Enterprise the largest gross acreage of any independent exploration and production company in the area. It added that the expansion of its interests in the Gulf of Mexico "gears Enterprise up in a very interesting way" and enhances its already strong growth profile. The shares lifted 25½ to 705p.

EMI jumps

EMI was the second-biggest riser in the Footsie as traders took a positive view of the company's purchase of half of Jobete Music. EMI's shares rose 42½ to £11.21½, although analysts were said not to be upgrading forecasts and the volume traded was small.

One trader put the rise in the share price down to the impact on sentiment, rather than the profit and loss account. He said sentiment in the stock had been downbeat since the suggestion of a share buy-back by the company but "this shows there are opportunities in the music sector".

SmithKline Beecham, which was already trading at a record high, added a further 18 at £11.68 as Lehman Brothers recommended the shares as a "buy" and upgraded profit forecasts.

Lehman raised its current year profit forecast to £1.764bn from £1.684bn and next year's estimate to £1.960bn from £1.930bn.

The other leaders were soggy after a very strong run recently. The sector outperformed the FTSE All-Share by 22 per cent in the past six months and 5 per cent during June. Zeneca shed 5¼ to £20.18½ while Glaxo-Wellcome was only up 2 at £13.13.

Schroders jumped 62½ to £16.97½ in the ordinaries as BZW issued a "buy" note on the stock and set a 1,850p short-term price target. BZW highlighted Schroders' earnings growth potential, which it feels could average 15-17 per cent over the next five years.

Amersham International rose smartly on the back of the health and technology group's announcement that it would merge with Nycomed of Norway.

The shares jumped 117½ before easing back to close up 87½ at £17.80 in response to cautious noises from some brokers. Merrill Lynch reiterated its "accumulate" rating with a target of £21.00. Merrill raised its 1998 earnings forecast by 20 per cent to 105p per share.

Kleinwort Benson reiterated its "buy" stance and raised its price forecast to £19.00 from £17.00.

However, BZW cut its rating on the stock to "hold" and NatWest downgraded from "add" to "hold".

Reckitt and Colman, the household products group, hit a new high as recent talk of US buying was compounded by some old takeover stories.

The rumours, which have circulated for the last few months, centred on a takeover bid by Unilever. But traders were sceptical and said the gains were more likely from a short squeeze.

The shares closed 35 higher at 947½p.

Bunzl, which makes paper and plastics, improved 6½ to 201p on news that it will pay $178m for American Filtrona, a US maker of bonded fibres and plastics. The deal is aimed at boosting Bunzl's US filter and ink reservoir businesses.

BAe was off 20 to £13.06 after US regulators allowed the merger of its rivals, McDonnell Douglas and Boeing, without conditions.

Currency concerns continued to weigh on some stocks, and Vickers eased to 207½p.

A note from Merrill Lynch said the company generated 30 per cent of profits overseas, and it estimated the effect of the strong pound at £8m. It has downgraded its forecast for the current year from £82m to £76m.

IMI, also subject of a note from Merrill Lynch that highlighted the impact of the strength of sterling, was off 2 at 330p. The broker downgraded forecasts from £154m to £147m; the strength of sterling accounts for £18m of the downgrade.

Recent concerns over the strength of sterling took their toll at Rank Group, which took second position among the FTSE 100 fallers as it gave up 14¼ to close at 360½p. The company has about 40 per cent of its sales and almost all its profits in North America.

Eurotunnel continued its gains of the past few days and rose 7 to 76p on news that the UK and French governments had provisionally agreed to extend its operating concession.

P&O, its rival on the short-sea Channel crossing, was also up, 8½ to 620p, on revived hopes that a UK government decision allowing its merger with Stena Line would be announced this week. The matter is thought to have been discussed at the meeting this week between Mrs Margaret Beckett, UK trade and industry secretary, and Mr Karel Van Miert, the European competition commissioner.

Lord Sterling, P&O chairman, has said he was not concerned by the DTI's rejection last week of a proposed merger between Bass and Carlsberg-Tetley.

BAA was up 17 to 572½p on a story that its liability under the windfall tax in the Budget would be about £150m. However, Railtrack gave up 3½ to 632p.

Midland Independent Newspapers was up 8 to 187½p on a report that Mirror Group, down a penny to 183½p, was set to this week announce details of its bid for the regional group.

FT 30 INDEX

	Jul 2	Jul 1	Jun 30	Jun 27	Jun 26	Yr ago	*High	*Low
FT 30	3056.6	3038.6	2985.6	3003.3	3014.4	2737.0	3077.4	2868.8
Ord. div. yield	3.61	3.63	3.70	3.67	3.66	4.08	4.22	3.56
P/E ratio net	18.39	18.30	17.95	18.07	18.12	16.16	18.64	15.80
P/E ratio nil	18.20	18.12	17.76	17.89	17.94	16.07	18.46	15.71

FT 30 since compilation: high 3077.4 13/06/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
3041.3	3052.1	3052.3	3041.1	3038.9	3040.9	3038.4	3041.1	3048.2	3068.8	3032.1

	Jul 2	Jul 1	Jun 30	Jun 27	Jun 26	Yr ago
SEAQ bargains	52,454	53,281	51,030	46,352	48,450	29,204
Equity turnover (£m)†	-	NA	NA	2850.6	3012.7	2039.0
Equity bargains†	-	NA	NA	45,783	49,207	35,245
Shares traded (m)†	-	NA	NA	818.6	744.4	695.0

†Excluding intra-market and overseas turnover but including Crest turnover.

*For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	960	Total Highs	121	Total contracts	56,902
Total Falls	491	Total Lows	66	Calls	32,991
Same	1,624			Puts	23,911

Jul 2 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4778.0	4822.0	+33.0	4830.0	4725.0	15703	64744
Dec	4808.0	4880.0	+34.0	4858.0	4808.0	184	3364
Mar		4916.5	+34.0			0	1

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep		4539.0	+18.0			0	7108

FTSE 100 INDEX OPTION (LIFFE) (*4753) £10 per full index point

	4600 C	4600 P	4650 C	4650 P	4700 C	4700 P	4750 C	4750 P	4800 C	4800 P	4850 C	4850 P	4900 C	4900 P	4950 C	4950 P
Jul	228½	21	188½	29	148	42½	113	59½	86	83½	59	113½	38½	151	24½	198½
Aug	249	45½	212½	58½	176	42½	147	93	117	115	92½	142½	71	174	52	210½
Sep	25½	66	248	78	213	94	182½	120	152	134½	126	161	104½	191	82½	223
Oct	312	76	274½	89½	242	108	211½	128½	181	150½	164½	177	132½	207	111	239
Dec†	379½	97½			303	132			239	171½			184	223		

Calls 11,006 Puts 8,427

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4625 C	4625 P	4675 C	4675 P	4725 C	4725 P	4775 C	4775 P	4825 C	4825 P	4875 C	4875 P	4925 C	4925 P	4975 C	4975 P
Jul	204	24	164	34	128	48	95½	65½	68½	88	47	116	30½	149½	18	187
Aug	229½	51½	193	64½	160	81	130½	101	104½	124½	81½	151½	62½	152	46½	187
Sep	284	70	228½	83½	196½	100½	166	120	138½	141½	114	166½	92½	194	74	234½
Dec	349½	102			283	132½			224	170½			172	215½		
Mar†	406½	128½			341½	159			281½	194			227	235		

Calls 10,333 Puts 7,431 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	66.4	127½	124½	Ashtanse	125		W5.0	1.6	5.0	14.0
§	F.P.	66.2	1200	782½	Aston Villa	840	+2½	R8.8	1.8	1.3	46.2
§150	F.P.	33.5	152½	149½	AIT	150½		L1.38	3.6	1.1	28.3
-	F.P.	15.9	102	42½	Caradon B	88½		-	-	-	-
-	F.P.	2.02	28	24	†Euro Mining Fin	25		-	-	-	-
§	F.P.	3.25	3½	3	Greenock Hldgs	3½		-	-	-	-
§	F.P.	1.20	1	½	Greenock Hld Wt	1	+¼	-	-	-	-
§140	F.P.	11.2	147½	98½	Heart of Midlthn	110½		-	-	-	-
§120	F.P.	10.5	127½	124½	†Highland Timber	124½		-	-	-	-
100	F.P.	3.25	125	102½	†Integrated As Mg	112½		-	-	-	-
§	F.P.	3.88	119½	112½	Longbridge Intl	117½		-	-	-	-18.4
290	F.P.	6,272	357½	318½	Norwich Union	325½	+1	L105	1.8	4.1	16.9
§185	F.P.	118.2	200½	195½	Powderject Pharm	200		-	-	-	-
§	F.P.	14.1	140½	136½	Primesight	140½	+1	-	-	-	-14.1
107	F.P.	33.1	112½	99½	Redbourne Martin	110½		-	-	-	-
§	F.P.	69.2	227	204½	Royalblue Grp	209½	+1	1.5	2.6	0.9	53.2
§100	F.P.	7.98	120½	110½	†SBS Group	112½		L2.4	2.0	2.7	19.8
§150	F.P.	116.5	157½	155	SGB Group	155½		L4.4	2.6	3.5	12.7
53	F.P.	5.04	4	3½	Versailles Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to the London Share Service notes.

FTSE GOLD MINES INDEX

	Jul 1	% chg on day	Jun 30	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1401.21	+0.6	1392.84	2022.37	2.22	-	2130.03	1362.84
Regional indices								
Africa (14)	1424.95	+0.6	1416.03	2576.58	6.17	22.05	2317.96	1416.63
Australasia (6)	1634.92	+1.3	1614.73	2387.61	3.16	18.45	2455.10	1614.73
North America (11)	1375.62	+0.5	1368.82	1786.39	0.76	71.54	1884.08	1335.84

Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition. Market closed 1/7/97: Canada.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jul 2	Day's chge%	Jul 1	Jun 30	Jun 27	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4751.4	+0.5	4728.3	4604.6	4640.3	3714.1	3.43	2.04	17.85	91.51	2029.36
FTSE 250	4471.3	+0.4	4452.5	4431.3	4446.0	4366.2	3.71	1.61	20.93	97.16	1872.39
FTSE 250 ex IT	4473.6	+0.4	4454.9	4434.3	4449.0	4405.1	3.85	1.64	19.76	100.13	1878.81
FTSE 350	2289.2	+0.5	2278.3	2228.0	2243.4	1873.3	3.49	1.95	18.36	45.15	1997.71
FTSE 350 ex IT	2289.1	+0.5	2278.3	2227.2	2242.8	-	3.51	1.96	18.13	12.70	1024.26
FTSE 350 Higher Yield	2235.3	+0.6	2221.5	2168.5	2180.4	1789.6	4.68	1.77	15.14	53.62	1653.53
FTSE 350 Lower Yield	2349.3	+0.4	2340.9	2294.5	2311.3	1964.2	2.48	2.25	22.37	36.08	1678.07
FTSE SmallCap	2226.86	+0.1	2225.62	2225.24	2233.09	2188.33	3.18	1.73	22.67	40.80	1894.24
FTSE SmallCap ex IT	2199.94	.....	2200.17	2201.89	2210.29	2188.65	3.44	1.82	20.00	43.81	1887.40
FTSE All-Share	2240.42	+0.4	2230.43	2184.52	2199.07	1858.38	3.46	1.94	18.60	43.95	1984.37
FTSE All-Share ex IT	2240.06	+0.4	2230.08	2183.10	2197.94	-	3.51	1.96	18.23	12.60	1020.28

FTSE Actuaries Industry Sectors

	Jul 2	Day's chge%	Jul 1	Jun 30	Jun 27	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4608.48	+0.6	4582.02	4457.04	4506.35	3512.22	3.31	2.01	18.75	88.92	2064.56
12 Extractive Industries(5)	4403.97	−0.7	4434.94	4372.77	4377.68	4272.06	3.57	2.38	14.68	104.80	1346.15
15 Oil, Integrated(3)	4797.59	+0.6	4768.89	4618.87	4678.04	3577.24	3.48	1.95	18.45	94.47	2210.05
16 Oil Exploration & Prod(12)	3793.63	+1.6	3733.15	3693.36	3724.84	2478.32	1.53	2.21	36.97	39.12	2324.95
20 GEN INDUSTRIALS(265)	1926.33	+0.2	1922.14	1916.03	1920.74	2018.82	4.15	1.89	15.90	42.03	1100.88
21 Building & Construction(35)	1359.71	+0.6	1351.81	1347.57	1358.28	1183.21	3.26	1.94	19.76	26.30	1183.79
22 Building Matls & Merchs(30)	1860.49	+0.1	1858.57	1858.63	1872.96	1873.67	4.34	2.82	10.21	41.69	983.23
23 Chemicals(26)	2438.95	+0.4	2428.76	2414.54	2420.80	2421.32	4.33	1.48	19.54	84.32	1216.88
24 Diversified Industrials(15)	1358.98	+1.4	1339.56	1317.75	1301.95	1558.55	5.39	1.98	11.70	37.73	805.87
25 Electronic & Elect Equip(37)	2047.60	+0.1	2045.50	2042.18	2032.31	2300.74	3.87	1.58	20.50	18.04	1096.71
26 Engineering(68)	2517.49	−0.3	2525.55	2522.67	2538.61	2448.96	3.41	2.27	16.15	50.97	1588.77
27 Engineering, Vehicles(13)	2845.48	.....	2846.86	2880.82	2905.90	3030.85	3.61	‡	‡	56.04	1532.69
28 Paper, Pckg & Printing(27)	2018.87	+0.6	2007.76	2000.74	2014.78	2551.36	5.20	1.88	12.80	58.15	882.49
29 Textiles & Apparel(14)	1040.29	−1.9	1060.49	1053.01	1056.35	1357.88	6.73	0.99	18.85	42.55	885.19
30 CONSUMER GOODS(85)	4687.91	+0.7	4656.64	4526.77	4531.07	3554.52	3.29	1.80	21.07	89.22	1810.95
32 Alcoholic Beverages(7)	3390.24	+1.3	3345.97	3279.98	3293.00	2694.31	3.91	1.88	17.03	76.75	1289.15
33 Food Producers(25)	2979.81	+0.5	2965.21	2926.36	2936.57	2490.96	3.72	1.84	18.23	68.87	1412.42
34 Household Goods(17)	3096.41	+2.7	3014.43	2974.00	2946.59	2632.01	3.36	2.31	16.08	59.44	1275.48
36 Health Care(15)	2284.50	+1.5	2250.68	2218.64	2221.76	2113.18	2.68	1.67	28.00	39.82	1437.13
37 Pharmaceuticals(16)	7691.66	+0.5	7654.12	7345.11	7337.31	5196.85	2.40	1.71	30.39	104.77	2700.14
38 Tobacco(3)	4516.16	+0.2	4508.77	4454.04	4479.18	4180.38	6.24	1.81	11.09	158.73	1205.12
40 SERVICES(274)	2583.80	+0.3	2577.11	2556.24	2576.16	2519.09	3.10	1.98	20.37	48.40	1395.40
41 Distributors(30)	2722.26	−0.1	2724.93	2723.11	2720.37	2871.31	3.42	1.95	18.77	54.15	1044.19
42 Leisure & Hotels(31)	3196.74	−1.0	3229.21	3208.19	3238.57	3164.90	2.90	1.81	23.86	69.70	1774.95
43 Media(44)	4027.10	+0.9	3989.89	3990.56	4039.07	4172.17	2.47	1.91	26.53	60.58	1496.11
44 Retailers, Food(15)	2120.33	−0.4	2129.71	2101.23	2097.72	2008.25	3.90	2.27	14.14	51.51	1415.41
45 Retailers, General(53)	2017.58	.....	2017.20	1991.63	2017.89	2099.22	3.51	2.03	17.51	46.82	1205.34
47 Breweries, Pubs & Rest.(22)	3139.78	+0.3	3130.92	3104.28	3110.80	3186.56	3.61	2.28	15.18	53.09	1565.91
48 Support Services(56)	3016.50	+0.8	2993.79	2951.75	2974.36	2453.79	1.71	2.56	28.53	23.78	1963.31
49 Transport(23)	2807.06	+0.7	2787.47	2762.01	2773.95	2322.53	3.56	1.38	25.54	56.35	1224.15
60 UTILITIES(31)	3004.34	+0.5	2989.00	2907.80	2932.83	2285.23	4.70	1.49	17.81	58.59	1391.27
62 Electricity(9)	3248.69	−1.3	3292.08	3182.86	3188.67	2557.45	5.47	1.99	11.48	108.23	1844.90
64 Gas Distribution(2)	2052.33	−0.8	2069.16	1980.00	2047.29	1227.43	5.94	‡	‡	68.13	1172.23
66 Telecommunications(8)	2434.13	+1.6	2395.14	2359.42	2382.50	1905.14	3.64	1.68	20.45	13.53	1155.88
68 Water(12)	2746.06	+1.1	2716.89	2593.08	2585.09	2149.87	6.00	2.29	9.09	88.99	1644.19
69 NON-FINANCIALS(675)	2260.23	+0.4	2250.48	2211.31	2223.86	1978.52	3.60	1.83	18.93	44.15	1797.79
70 FINANCIALS(106)	4370.79	+0.5	4349.28	4207.16	4250.82	2866.11	3.21	2.39	16.32	91.77	1874.50
71 Banks, Retail(10)	6714.82	−0.2	6729.02	6464.73	6535.35	3981.74	2.91	2.61	16.43	129.00	2298.35
73 Insurance(18)	1748.74	+2.6	1703.97	1649.22	1670.54	1423.20	4.89	2.60	9.82	55.11	1398.14
74 Life Assurance(7)	4805.41	+2.4	4692.79	4583.55	4640.00	3298.43	3.64	1.96	17.55	121.00	2098.01
77 Other Financial(29)	3208.86	+1.6	3158.08	3130.90	3139.55	2634.38	3.29	1.95	19.50	64.20	1913.88
79 Property(44)	1971.91	+1.1	1950.59	1933.27	1948.05	1522.26	3.27	1.33	28.80	36.38	1269.89
80 INVESTMENT TRUSTS(127)	3434.19	+0.5	3418.57	3397.88	3406.76	3134.12	2.20	1.17	48.59	45.69	1233.17
89 FTSE All-Share(910)	2240.42	+0.4	2230.43	2184.52	2199.07	1858.38	3.46	1.94	18.60	43.95	1984.37
105 FTSE All-Share ex IT(783)	2240.06	+0.4	2230.08	2183.10	2197.94	-	3.51	1.96	18.23	12.60	1020.28
FTSE Fledgling	1253.25	+0.1	1251.73	1253.34	1257.51	1247.32	3.21	0.81	47.93	22.85	1356.92
FTSE Fledgling ex IT	1254.38	.....	1253.90	1256.13	1260.86	1259.49	3.58	0.79	44.23	22.89	1336.83
FTSE AIM	1053.6	+0.2	1051.0	1055.7	1058.3	-	1.05	1.20	80.00†	3.69	965.12

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	4737.5	4764.0	4756.1	4732.8	4729.3	4728.6	4722.9	4726.1	4753.3	4791.1	4715.9
FTSE 250	4455.1	4467.8	4470.6	4468.3	4465.7	4467.1	4467.8	4466.7	4469.9	4474.1	4455.1
FTSE 350	2282.2	2293.7	2290.9	2281.6	2280.0	2279.9	2277.7	2278.8	2289.8	2304.9	2274.7
FTSE SmallCap	2226.03	2226.50	2227.33	2226.94	2226.07	2225.99	2226.22	2226.44	2226.79	2227.69	2225.44
FTSE All-Share	2233.99	2244.56	2242.07	2233.54	2231.99	2231.88	2229.92	2230.99	2240.97	2254.82	2227.24

Time of FTSE 100 Day's high: 9:18 AM Day's low: 11:18 AM. FTSE 100 1997 High: 4751.4 (02/07/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 9:18 AM Day's low: 11:18 AM. FTSE All-Share 1997 High: 2240.40 (02/07/97) Low: 1989.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown.
‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	314	509	+4
ASDA Group†	11,300	127	
Abbey National†	3,900	862	+17
Airtours	317	1153½	+7
Albert Fisher	1,500	44	+½
Alliance & Leicester†	2,500	597½	-8½
Allied Domecq†	897	427	-3
Anglian Water	1,900	709	+13½
Argos	477	584½	+8½
Arjo Wiggins	674	176½	+½
Assoc. Brit. Foods†	493	533½	+8
Assoc. Brit. Ports	96	255½	+½
BAA†	3,800	572½	+17
BAT Inds.†	6,100	549½	+3½
BBA	1,200	350½	-3½
BICC	432	178½	+½
BOC†	558	1068½	-9
BG†	4,200	229	-4
BP†	5,900	763	+7
BPB	610	321	-3
BSkyB†	5,700	436	+9
BT†	18,200	457½	+7½
BTR†	6,300	214½	+3
Bank of Scotland†	3,100	403½	-2½
Barclays†	2,500	1212½	-16½
Bass†	1,700	759	+14
Blue Circle†	3,000	423½	
Booker	349	375½	
Boots†	696	727	+4½
Britannic	71	829½	+11
Brit. Aerospace†	1,100	1306½	-20
British Airways†	4,800	681	-3½
British Biotech	183	227½	-1
British Energy	4,700	149	+½
British Land†	2,400	564	+5
British Steel†	13,000	150¼	-¼
Burmah Castrol†	256	1008½	-14
Burton	1,900	116¾	-1½
Cable & Wire†	7,300	588½	+18
Cadbury Schweppes†	1,100	532	-4
Caradon	879	306	+½
Carlton Comms †	1,500	538½	+22½
Centrica†	4,600	76	+1½
Coats Viyella	2,800	119	-8½
Comm. Union†	3,500	687½	+26
Compass	1,000	671	-1½
Cookson	3,000	207½	-2
Courtaulds	625	346	+6½
Dalgety	165	282½	+3
De La Rue	2,500	395	+11½
Dixons†	3,400	491½	+11
EMAP	545	751	+3½
EMI†	1,900	1121½	+42½
Electrocomps	90	448½	
Energy Group†	1,400	641½	+1
Enterprise Oil†	2,700	705	+25½
FKI	1,900	168	-½
Foreign & Col. I.T.	902	165¼	+¼
Gen. Accident†	187	930	+23
General Elect.†	7,400	360	+½
Glaxo Wellcome†	7,400	1313	+2
Glynwed	38	238½	+½
Granada†	2,300	793½	-3
Grand Met.†	5,700	610	+12½
GUS†	688	617	+1½
Greenalls	112	442½	
GRE†	2,000	278½	+5½
GKN†	309	1008½	-11
Guinness†	4,000	610	+11
HSBC (75p shs)†	2,700	1935½	+1
Halifax†	9,500	787½	-10½
Hammerson	551	473½	+10
Hanson†	1,700	307	+½
Harrisons Crosfield	2,100	114½	+3
Hays†	718	573½	-1
Hillsdown	1,700	184½	+½
Hyder	519	823½	-½
IMI	884	330	-2
ICI†	4,700	848½	+2
Imperial Tobacco†	1,100	381½	-7
Inchcape	8,300	283	-2
Johnson Matthey	629	554	-14½
Kingfisher†	627	695	-2½
Kwik Save	82	308	+3
Ladbroke†	3,000	243	-5½
Land Securities†	1,300	871½	+4
Laporte	82	635	-1
Legal & General†	2,100	435½	+8½
Lloyds TSB†	7,100	646	-9½
LASMO†	1,900	270½	+3½
Lonrho	3,000	141½	+12
LucasVarity†	3,200	206	+3½
MEPC	373	503½	+11½
MFI	7,500	126	-3
Marks & Spencer†	7,200	505½	-3
Mercury Asset Man†	523	1266	+29
Morrison (Wm.)	84	157	+1½
NFC	262	131	+½
NatWest Bank†	6,700	859½	+10
National Grid†	7,900	233½	+½
National Power†	2,400	534	-8
Next†	2,200	585½	+5
Northern Foods	254	198½	
Norwich Union	13,000	325½	+1
Orange†	1,300	201	-2½
Pearson†	1,500	705½	+7
P & O†	2,500	620	+8½
Pilkington	3,400	135½	-½
PowerGen†	2,400	729½	-5½
Premier Farnell	179	466	-2
Provident Financial	188	572	+8½
Prudential†	2,300	605½	+11½
REXAM	611	255½	+½
RMC†	185	971	+1
Racal	97	241½	-1
Railtrack†	2,100	632	-3½
Rank Group†	2,300	360½	-14¼
Reckitt & Colman†	1,300	947½	+35
Redland	1,400	326½	-½
Reed Intl.†	4,100	597½	+3
Rentokil Initial†	4,100	225½	+4½
Reuters†	4,800	631	-1
Rio Tinto†	3,000	1054½	-8
Rolls Royce†	3,700	235½	+½
Royal & Sun Alliance†	2,800	474	+12
Royal Bk Scotland†	1,700	588½	+6½
Safeway†	4,500	350½	-3
Sainsbury†	3,600	383½	-5
Schroders†	153	1697½	+62½
Scottish & New.†	1,600	651½	-6½
Scot. Hydro-Elect.	1,500	481	-1½
Scottish Power†	1,700	397	-16
Sears	1,500	68	
Securicor	67	287	-1
Severn Trent†	2,600	839	+29
Shell Transport†	11,400	433½	+2
Siebe†	2,500	1026	+3½
Slough Estates	234	304½	+9
Smith (W.H.)	841	382	+6
Smith & Nephew	2,800	172	+4½
SmKl Beecham†	5,700	1168	+18
Smiths Inds.†	126	779	-3
Southern Elect	1,700	436½	-15
South West Water	358	751	+21½
Stagecoach	435	633	-1
Standard Chartd.†	3,100	951	+13¼
Storehouse	2,400	187	+½
T&N	461	143	-1
TI Group†	1,300	512	-5
Tarmac	2,100	127	
Tate & Lyle†	2,600	456½	+8½
TeleWest Comms	32	65	
Tesco†	1,800	374½	
Thames Water†	809	740	+12
Thistle Hotels	916	159½	+1
Thorn	2,400	171½	+1½
Tomkins†	2,800	267½	-4
Unigate	1,200	478½	-3
Unilever†	1,600	1771	+10
United Assurance	301	434½	+4½
United Biscuits	4,500	208½	+5
Utd. News & Media†	1,400	709½	+6
United Utilities†	1,700	689	-1
Vodafone†	8,200	299	-2½
WPP	873	240	-2½
Wessex Water	803	432	-3
Whitbread†	394	758½	-3
Williams Hldgs.	4,100	328½	+1½
Wimpey	916	137½	+2½
Wolseley†	487	478	+7½
Yorkshire Water	2,200	411	-7½
Zeneca†	1,100	2018½	-5½

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † indicates an FTSE 100 index constituent. All trades are rounded. Source: Extel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jul 2 / Sch)

BELGIUM/LUXEMBOURG (Jul 2 / Frs.)

CZECH REP (Jul 2 / Korona)

DENMARK (Jul 2 / Kr)

FINLAND (Jul 2 / Mkk)

FRANCE (Jul 2 / Frs.)

GERMANY (Jul 2 / Dm.)

GREECE (Jul 2 / Drachma)

ITALY (Jul 2 / Lira)

NETHERLANDS (Jul 2 / Fls.)

NORWAY (Jul 2 / Kroner)

POLAND (Jul 2 / Zloty)

PORTUGAL (Jul 2 / Escudo)

SPAIN (Jul 2 / Pts.)

SWEDEN (Jul 2 / Kronor)

SWITZERLAND (Jul 2 / Frs.)

TURKEY (Jul 2 / Tk Lira)

PACIFIC

JAPAN (Jul 2 / Yen)

HONG KONG (Jun 27 / H.K.$)

INDONESIA (Jul 2 / Rupiah)

MALAYSIA (Jul 2 / MYR)

NEW ZEALAND (Jul 2 / NZ $)

SINGAPORE (Jul 2 / S$)

AUSTRALIA (Jul 2 / Aust$)

SOUTH KOREA (Jul 2 / Won)

TAIWAN (Jul 2 / TW $)

THAILAND (Jul 2 / Baht)

INDICES

	Jul 2	Jul 1	Jun 30	1997 High	1997 Low
Argentina					
General(29/12/77)	(u)	22967.84	22793.84	23184.78 24/6	18237.37 2/1
Australia					
All Ordinaries(1/1/80)	2745.9	2721.2	2725.9	2745.90 2/7	2352.20 1/4
All Mining(1/1/80)	921.4	919.3	920.3	987.10 24/2	878.40 16/4
Austria					
Credit Aktien(30/12/84)	425.70	422.05	415.27	431.07 5/6	374.40 9/1
Traded Index(2/1/91)	1364.75	1339.87	1309.70	1384.75 2/7	1130.22 9/1
Belgium					
BEL20(1/1/91)	2444.93	2408.60	2380.70	2444.93 2/7	1871.05 2/1
Brazil					
Bovespa(29/12/83)	(u)	13002.0	12568.0	13063.00 25/6	6855.50 2/1
Canada					
Metals Mnls♦(1975)	(u)	(c)	5126.54	5891.76 10/3	4946.86 11/4
Composite♦(1975)	(u)	(c)	6437.70	6560.80 13/6	5878.30 14/4
Portfolio§§(4/1/83)	(u)	(c)	3248.14	3330.96 13/6	2946.02 11/4
Chile					
IGPA Gen♥(31/12/80)	(u)	5764.01	5731.85	6843.79 13/6	4912.42 2/1
Denmark					
CopenhagenSE(3/1/83)	598.61	594.73	588.62	598.61 2/7	470.14 2/1
Finland					
HEX General(28/12/90)	3244.66	3229.35	3307.50	3244.66 2/7	2483.28 2/1
France					
SBF 250(31/12/90)	1896.29	1912.22	1871.39	1912.22 1/7	1533.19 2/1
CAC 40(31/12/87)	2909.45	2944.04	2858.25	2944.04 1/7	2256.97 2/1
Germany					
FAZ Aktien(31/12/58)	1306.06	1293.27	1290.55	1306.06 2/7	988.21 2/1
Commerzbank(1/12/53)	3842.80	3798.20	3802.80	3842.80 2/7	2875.90 2/1
DAX‡(30/12/87)	3854.76	3819.85	3785.77	3854.76 2/7	2848.77 2/1
Greece					
Athens SE(31/12/80)	1503.58	1525.07	1518.51	1727.29 23/5	854.54 2/1
Hong Kong					
Hang Seng(31/7/64)	(c)	(c)	(c)	15196.79 27/6	12056.17 3/4
India					
BSE Sens.(1979)	4333.80	4300.86	4256.09	4333.80 2/7	3225.24 2/1
Indonesia					
Jakarta Comp.(10/8/82)	730.15	731.61	724.55	731.61 1/7	631.27 15/4
Ireland					
ISEQ Overall(4/1/88)	3412.50	3387.06	3377.17	3412.50 2/7	2725.07 2/1
Italy					
Banca Comm Ital(1972)	853.45	834.13	835.08	853.45 2/7	642.55 2/1
MIB General(2/1/97)	1283.0	1254.0	1256.0	1283.00 2/7	981.00 2/1
Japan					
Nikkei 225(16/5/49)	20196.42	20175.52	20604.96	20681.07 16/6	17303.65 10/1
Nikkei 300(1/10/82)	296.07	296.58	301.76	302.54 25/6	251.04 27/1
Topix(4/1/68)	1531.27	1529.38	1553.81	1580.28 26/6	1320.82 10/4
2nd Section(4/1/68)	1840.55	1844.24	1848.25	1848.28 30/6	1516.60 15/4
Malaysia					
KLSE Comp.(4/4/86)	1084.88	1078.90	1077.30	1271.57 25/2	1041.27 15/5
Mexico					
IPC(Nov 1978)	(u)	4508.79	4457.97	4508.79 1/7	3368.46 2/1
Netherland					
CBS TtlRtnGen(End 83)	1043.5	1034.0	1015.8	1043.50 2/7	730.80 2/1
CBS All Shr(End 83)	602.9	597.4	587.0	602.90 2/7	428.00 2/1
New Zealand					
Cap. 40(1/7/86)	2493.16	2490.86	2501.96	2501.96 30/6	2207.48 1/4
Norway					
Oslo SE(Ind)(2/1/83)	2058.52	2033.17	2013.80	2058.52 2/7	1639.03 2/1
Philippines					
Manila Comp(2/1/85)	2764.89	2815.54	2809.21	3447.60 3/2	2499.38 20/5
Portugal					
BVL 30(4/1/93)	3241.58	3193.53	3157.29	3241.58 2/7	2165.57 2/1
Singapore					
SES All-S'pore(2/4/75)	490.49	494.00	491.31	573.03 17/2	479.94 29/4
South Africa					
JSE Gold(28/9/78)	954.7♥	968.6	965.0	1588.10 27/2	984.70 2/7
JSE Indl.(28/9/78)	8832.5♥	8808.7	8790.5	8832.50 2/7	7858.50 2/1
South Korea					
KoreaCmpEx**(4/1/80)	777.29	758.03	745.40	792.29 17/6	611.05 7/1
Spain					
Madrid SE(30/12/85)	618.36	608.58	600.62	618.36 2/7	434.54 2/1
Sweden					
AffarsvardInGen(1/2/37)	(u)	3039.1	3024.0	3039.10 1/7	2378.50 2/1
Switzerland					
SMI Index(1/7/88)	5674.3	5654.8	5630.6	5700.30 27/6	3822.80 7/1
SPI General(1/6/87)	3585.26	3568.46	3546.37	3593.51 27/6	2505.22 6/1
Taiwan					
WeightedPr.**(30/6/66)	8936.72	(c)	9030.28	9030.28 30/6	6844.76 6/1
Thailand					
Bangkok SET(30/4/75)	568.79	(c)	527.28	858.97 22/1	464.77 19/6
Turkey					
IMKB Nat 100(1986)	1873.00	1851.00	1857.00	1873.00 2/7	895.00 2/1
WORLD					
MS Capital Intl$(1/1/70)	946.5*	944.2	933.7	946.50 2/7	784.50 14/4
CROSS-BORDER					
Eurotrack 100(26/10/90)	2565.92	2537.85	2532.09	2565.92 2/7	1880.80 2/1
FTSE E 100(26/6/90)	2159.21	2151.45	2108.06	2159.21 2/7	1582.99 2/1
HSBC JC Drgn(31/12/88)	(u)	428.76	426.16	428.48 20/1	391.54 29/4
ING Brngs Emrg(7/1/92)	(u)	190.15	190.06	190.42 27/6	158.74 3/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol	Open int.
CAC-40 (200 x Index)							
Jul	2944.0	2945.0	-	2917.0	2880.0	19,496	31,463
Aug	2951.5	2952.5	-	2951.5	2909.0	111	1,792
DAX							
Sep	3860.0	3884.0	+20.0	3895.0	3856.5	16,516	84,120
Dec	3896.5	3912.5	+24.5	3917.0	3886.5	17	1,476
OMX							
Jun	2428.00	2435.00	+8.00	2435.00	2422.00	2,112	25,031
Jul	2432.00	2437.00	-2.00	2437.00	2432.00	45	864
SOFFEX							
Jul	5665.0	5684.0	+22.0	5689.9	5656.0	3,531	19,981
Aug	-	5691.0	-	-	-	1	446

** Sat June 28: Taiwan Weighted Price 8924.48; Korea Comp Ex 749.89. Base values of all indices are 100 except Australia All Ord and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPL Euro Top-100, ISEQ Overall, Toronto Comp./Met & Mins, DAX - all 1,000; SMI - 1500; JSE Gold - 255.7; JSE 28 Ind - 264.3; IMKB Nat 100 - 1, NYSE All Common - 50; Stand & Poor's - 10 and Amex Comp - 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index. Jul 2 - 3887.53 +32.69 † Correction. * Calculated at 15.00 GMT. ♦ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jul 1	Jun 30	Jun 27	1997 High	1997 Low	Since compilation High	Since compilation Low
Industrials	7722.33	7672.79	7687.72	7796.51 (20/6)	6391.69 (11/4)	7796.51 (20/6/97)	41.22 (8/7/32)
Home Bonds	103.08	102.96	103.02	103.63 (19/2)	101.09 (14/4)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2744.86	2713.61	2732.43	2756.62 (20/6)	2222.07 (2/1)	2756.62 (20/6/97)	13.23 (8/7/32)
Utilities	228.25	226.79	225.60	240.85 (22/1)	209.47 (25/4)	256.46 (31/8/93)	16.53 (8/7/32)

DJ Ind. Day's high 7801.04 (7766.01) Low 7613.53 (7571.46) (Theoretical♦)
Day's high 7748.34 (7727.30) Low 7667.38 (7612.17) (Actual♦)

Standard and Poors	Jul 1	Jun 30	Jun 27	1997 High	1997 Low	Since compilation High	Since compilation Low
Composite‡	891.03	885.15	887.30	898.70 (20/6)	737.01 (2/1)	898.70 (20/6/97)	4.40 (1/6/32)
Industrials♥	1048.10	1042.97	1043.59	1054.79 (20/6)	865.42 (11/4)	1054.79 (20/6/97)	3.52 (30/6/32)
Financial	101.75	100.13	101.48	104.16 (19/6)	80.75 (2/1)	104.16 (19/6/97)	7.13 (4/9/74)
NYSE Comp.	466.01	462.44	463.30	467.84 (20/6)	389.47 (11/4)	467.84 (20/6/97)	4.84 (25/4/42)
Amex Comp.	625.61	622.57	620.07	630.18 (13/6)	541.20 (28/4)	630.18 (13/6/97)	524.20 (16/7/96)
NASDAQ Comp	1438.25	1442.07	1438.15	1452.43 (24/6)	1201.00 (2/4)	1452.43 (24/6/97)	54.87 (3/10/74)

■ RATIOS

	June 27	Jun 20	Jun 13	Year ago
Dow Jones Ind. Div. Yield	1.67	1.65	1.64	2.19
	Jun 25	Jun 18	Jun 11	Year ago
S & P Ind. Div. yield	1.62	1.59	1.62	1.87
S & P Ind. P/E ratio	24.35	24.27	24.13	22.29

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Office Dpt	22,752,400	15⅝	-3¼
Westinghse	7,592,300	23⅞	+⅞
Phip Morris	5,875,300	43⅞	-⅜
CocaCola	5,841,100	68⅝	+1⅛
Compaq	5,147,000	101⅞	+2⅛
Boeing	4,996,800	54½	+1
AT&T	4,659,100	36¼	+1¼
Gen Elec	4,190,300	66⅛	+1⅛
H&R Block	3,838,400	32⅛	+⅛
Fed Dept St	3,697,200	35⅛	+⅛

■ TRADING ACTIVITY

● Volume (million)	Jul 1	Jun 30	Jun 27
New York SE	544,892	561,404	455,209
Amex	20,121	23,565	22,367
NASDAQ	594,705	645,637	583,381
NYSE			
Issues Traded	3,384	3,380	3,357
Rises	1,693	1,524	1,808
Falls	1,348	1,287	940
Unchanged	553	569	609
New Highs	255	323	224
New Lows	11	17	7

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Sep	900.75	899.75	-1.50	903.00	899.75	66,625	173,230
Dec	911.80	910.50	-0.45	912.00	910.50	100	4,666

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	20250.0	20220.0	+130.0	20280.0	19990.0	26,276	164,561
Dec	20100.0	20080.0	-90.0	20180.0	20000.0	1,925	3,423

Open interest figures for previous day.

NORTH AMERICA

CANADA

TORONTO (Jul 2 / Can $)

4 pm close

MONTREAL (Jul 2 / Can $)

4 pm close

AFRICA

SOUTH AFRICA (Jul 2 / Rand)

Prices supplied by Extel, part of FT Information.

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday July 2, 1997

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nip Steel Corp	8.4m	358	+1	Nomura Secs	3.6m	1520	-30
Fujitsu Ltd	5.6m	1560		NKK Corp	3.4m	239	-3
Sakura Bank	4.7m	837	-27	Toshiba Corp	3.3m	716	-10
NGK Insulators	3.9m	1270	+30	NEC Corp	3.2m	1560	+20
Yaohan Jpn Corp	3.6m	211	-19	Fujisawa Pharm	2.7m	1500	+90

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NEW YORK STOCK EXCHANGE PRICES

4 pm close July 2

- A -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32 5/16	24 1/4	AAR	0.48	1.5	25	261	u32 13/16	32 3/8	32 5/16	
43 1/8	33 1/4	AMP	1.04	2.4	34	2706	43 1/16	41 3/4	43 1/16	+13/16
100 1/4	78 1/4	AMR			7	5368	95 7/16	93	95 1/8	+2 7/16
37 5/8	30 5/8	ASA	1.20	3.9	20	220	31	30 3/4	30 13/16	-1/8
68 13/16	49 3/4	AbbotL	1.08	1.6	26	7791	66 7/16	65 7/8	66 1/2	+7/16
18 5/8	14 1/8	AutBbl Pr	0.40	2.3	9	20	17 3/4	17 3/4	17 3/4	
20	17 7/8	ABM Ind	0.40	2.1	17	83	19 9/16	19 3/8	19 1/2	+1/8
33	17 3/4	Acptcole			11	128	22 7/8	22 5/8	22 3/4	+1/4
75 3/16	55 1/2	ACE Ltd x	0.88	1.2	12	2518	u76 3/4	74 1/8	75 3/4	+2 1/4
10 3/4	10	ACM Gvt In x	0.90	8.7	11	243	10 7/16	10 5/16	10 3/8	-1/16
7 3/4	7	ACM GvOpp x	0.63	8.3		365	7 5/8	7 1/16	7 5/8	
9 13/16	9 1/4	ACM Man x	0.90	9.2		158	9 7/8	9 13/16	9 13/16	-1/8
10 3/4	6 1/4	Acme Elect				16	6 13/16	6 13/16	6 13/16	
20	13	Acme Mills				29	17 1/4	17 3/16	17 1/4	+1/8
19 3/4	14	ACNielsen			36	4159	u20	19 13/16	20	+1
40 1/8	27 1/4	Acordia	0.80	2.0	19	258	40 1/16	39 7/8	39 7/8	-1/8
29 1/4	21 1/8	Acuson				717	23 3/4	22 3/4	22 13/16	-7/16
23 7/8	19 3/8	Adams Expr	0.55	2.3	1	321	23 3/4	23 1/2	23 11/16	-1/8
48 1/2	24 7/8	AdvMic				18573	35 1/2	34 7/8	35 1/16	+7/16
27 1/2	10 3/8	Advest Grp x	0.12	0.5	17	166	23 7/8	23 5/8	23 7/8	
16 11/16	11 3/8	Advo Inc			19	133	16 5/8	16 7/16	16 5/8	
78 5/8	61 1/8	Aegon	1.31	1.8	20	8668	71 7/8	71 3/8	71 7/8	+1 3/8
5 3/16	3 1/8	Aerifx				545	4 3/8	4 3/8	4 13/16	-1/16
49 3/8	33	Aero-V	0.80	1.7	14	2308	48 1/2	47 1/2	47 7/8	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- B -

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

- C -

[illegible]	[illegible]	[illegible]

- D -

[illegible]	[illegible]	[illegible]

- E -

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- F -

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- J -

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- L -

[illegible]	[illegible]	[illegible]

- M -

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- N -

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- O -

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- P - Q -

[illegible]	[illegible]	[illegible]

- R -

[illegible]	[illegible]	[illegible]

- S -

[illegible]	[illegible]	[illegible]

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4 pm close July 2

NYSE PRICES

Continued from previous page

- T -
- U -
- V -
- W -
- X - Y - Z -

Price data supplied by Telekurs, part of FT Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

‡-new yearly low. P/E price-earnings ratio. xd-ex-dividend. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended. NASDAQ prices are subject to late updates.

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AMEX PRICES

4 pm close July 2

NASDAQ NATIONAL MARKET

4 pm close July 2

- A -
- B -
- C -
- D -
- E -
- F -
- G -
- H -
- I -
- J -
- K -
- L -
- M -
- N -
- O -
- P - Q -
- R -
- S -
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- V -
- W -
- X - Y - Z -

EASDAQ

EASDAQ is a fully regulated independent pan European Stock Market focused on high growth companies with international aspirations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members. EASDAQ Members are made up of Brokers and Banks from across Europe.

Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
[illegible]	US$3.625	-0.125	7000	8.25	3.375	Lernout & Hauspie	US$24.625	-0.375	[illegible]	25.375	25
[illegible] Systems	US$10.25		15350	11.125	9.5	[illegible]	[illegible]	-0.25	[illegible]	[illegible]	6.125
[illegible]	FF115		0	18	14	[illegible]	US$24.875		1000	24.875	24.875
[illegible] ADS	US$25.5	+0.5	4500	26.75	15.375	[illegible]	[illegible]		[illegible]	[illegible]	3.875
[illegible] ADS	US$2		500	12.25	5.375	Scoot [illegible]	[illegible]	-8	[illegible]	[illegible]	500
[illegible]	US$11.375		82700	12.75	10.375						

Prices for 2/7/97. Please note that mid prices are now used to calculate highs and lows. Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
EASDAQ offices are located in Brussels (Tel 32-2 / 227 65 20) and in London (Tel 44-171 [illegible]).

US shares sit tight in midsession trade

AMERICAS

Equities hovered around Tuesday's close at midsession as traders on Wall Street anxiously awaited an announcement by the Federal Reserve on interest rate policy, expected later in the day, *writes John Labate in New York.*

"Everybody's just sitting on their hands and waiting for 2.15," said Mr Bill Meehan, market analyst at Prudential Securities, referring to the time when the Fed was expected to announce any interest rate change.

By early afternoon the Dow Jones Industrial Average was down 23.30 at 7,699.03. The broader Standard & Poor's 500 index was 2.78 higher at 893.81. Investors seemed to be favouring technology issues at the expense of blue-chip stocks.

Among Dow constituents with price declines were AT&T, which fell $1⅛ at $35⅞, and Walt Disney, which lost $1⅞ to $76½. McDonald's lost $1 to $47⅞ and DuPont fell $1⅛ to $61⅞.

Among other large companies, pharmaceuticals producer Bristol-Myers Squibb shot up $2⅛ to $82⅝ while Warner-Lambert shed $1⅛ to $130⅝.

Technology stocks were up strongly as the Nasdaq Composite, which is heavily weighted towards technology shares, gained 8.54 to 1,446.79. The Russell 2000 index, which tracks small company stocks, was down by less than a point at 394.02.

Networking computer stocks were among the tech sector's biggest gainers as Ascend Communications shot up $4⅜ or nearly 10 per cent to $47⅞. Cisco Systems rose $1⅞ to $69¼ and 3Com surged $2¼ or 6 per cent to $47⅞.

Microsoft edged up $⅞ to $125⅞ while semiconductor leader Intel gained $3⅛ to $142⅞. Compaq Computer rose $2⅛ to $104 while Dell Computer increased $2⅞ to $117⅞.

TORONTO moved ahead strongly, buoyed by a rally in banks and property and a surge for Northern Telecom which leaped C$5.55 to C$130 in the morning session. The 300 composite index was up 77.76 at 6,515.50 at noon.

Banks, weak in recent sessions, sprang back on to the upside. Royal Bank of Canada gained C$1.90 to C$64.45 and Toronto-Dominion Bank 70 cents to C$41.60.

Within a lively property sector, Trizec Hahn stood out, rising C$1.75 or nearly 6 per cent to C$30.05.

Mexico City higher ahead of elections

Easier local money market rates and an upsurge in sentiment ahead of the weekend elections pushed MEXICO CITY strongly ahead from the opening bell.

There was said to be steady foreign buying and at midsession the IPC index was 52.35 or 1.2 per cent higher at 4,561.04.

Telmex gained 26 centavos to 19.48 pesos and financial leader Bancomer put on 4 centavos to 3.95 pesos.

● Latin America remained the region most favoured by fund managers during the second quarter of the year, supported by a flow of assets from Asia, according to a survey conducted for Burson-Marsteller, the communications consultancy.

The survey of 35 funds in Europe, the US and Asia, found that good valuations, favourable macro-economic conditions and political stability all contributed to the region's popularity.

Brazil found favour with the majority of funds while opinions on Mexico were mixed, with depressed consumer spending and patchy economic recovery becoming concerns.

Chile was described as the Bundesbank of the region, "not exciting, but with solid investment options".

Emerging markets: IFC weekly investable price indices

Market	No. of stocks	Dollar terms June 27 1997	% Change over week	% Change on Dec '96	Local currency terms June 27 1997	% Change over week	% Change on Dec '96
Latin America	(247)	745.36	+1.9	+39.6			
Argentina	(30)	1,158.11	-1.7	+21.8	710,307.05	-1.7	+21.8
Brazil	(68)	619.87	+3.9	+58.4	2,494.04	+3.7	+61.9
Chile	(46)	606.10	+0.0	+30.0	1,343.32	-0.3	+27.4
Colombia*	(14)	828.57	-1.3	+30.9	1,597.06	-1.1	+41.6
Mexico	(63)	690.82	+1.4	+30.4	2,368.20	+1.3	+31.8
Peru*	(17)	284.26	-0.5	+34.3	427.76	-0.5	+36.9
Venezuela*	(9)	992.12	+12.0	+36.3	11,088.70	+12.2	+39.1
Asia	(709)	239.85	-1.0	-5.1			
China*	(27)	82.12	+0.9	+11.4	85.63	+0.8	+11.1
South Korea*	(156)	81.96	-4.5	+8.1	95.67	-4.5	+8.1
Philippines	(42)	250.12	-2.0	-14.8	318.79	-2.0	-14.5
Taiwan, China*	(90)	187.21	+1.3	+22.2	195.52	+0.9	+23.6
India*	(77)	102.70	+1.1	+30.4	130.58	+1.1	+30.3
Indonesia*	(49)	133.31	+0.3	+4.4	176.08	+0.3	+7.5
Malaysia	(148)	285.32	-3.3	-15.2	265.70	-3.0	-15.3
Pakistan*	(28)	238.83	-1.9	+22.0	439.22	-1.9	+22.8
Sri Lanka*	(5)	130.94	+4.3	+37.7	166.96	+4.1	+41.9
Thailand	(67)	137.32	+15.5	-39.0	141.09	+14.8	-37.4
Euro/Mid East	(265)	162.76	+2.7	+21.2			
Czech Rep	(7)	56.66	-2.5	-19.2	60.75	-1.9	-4.3
Egypt	(16)	95.69	-0.6	-	95.56	-0.6	-
Greece	(54)	343.97	+1.1	+41.9	638.37	+1.2	+57.6
Hungary*	(12)	283.99	+4.4	+44.3	537.90	+4.9	+66.7
Israel	(40)	121.15	-6.1	+21.2	134.22	-1.6	+34.2
Jordan	(7)	158.29	+0.6	+6.2	295.93	+0.6	+6.1
Morocco	(5)	122.95	-0.2	-	127.65	-0.1	-
Poland*	(30)	651.22	-5.8	-11.1	1,341.04	-5.0	+1.7
Portugal	(29)	190.88	+0.1	+30.6	230.25	+0.6	+47.7
Russia	(15)	150.14	+7.3	-	154.01	+7.4	-
Slovakia	(5)	91.46	-1.2	-	94.66	-0.8	-
South Africa*	(63)	239.01	+2.4	+14.6	222.88	+2.5	+10.6
Turkey*	(58)	225.46	+9.9	+51.6	15,693.46	+11.0	+105.9
Zimbabwe*	(5)	584.01	+0.6	+23.4	978.76	+1.2	+29.7
Composite	(1221)	338.20	+0.9	+14.6			

Indices are calculated at end-week; weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: [illegible]

After the Thai baht, where in Asia is next in line for a freely floating exchange rate? Most analysts point to the Philippines where trading volume yesterday soared to five times the normal daily level amid signs of barricade manning by the central bank which hoisted one-day money from 15 to 24 per cent, *writes Jeffrey Brown.*

Thus the uncertainty that has dogged the Manila share market this year looks like coming to a head. The composite index hit an all-time high of 3,447.6 in February and, apart from a rally in May, the trend-line has been determinedly downwards ever since.

"Most people are now betting that the peso will follow the baht. Unless there is huge support from Japan and Singapore, the peso will have to be floated," said one leading regional analyst. The composite index closed yesterday at 2,764.89, down 1.8 per cent. At present levels, money rates are seen as simply untenable. At the same time, Philippines reserves are slim, possibly little more than $13bn, and yesterday the central bank was thought to have spent up to $400m in support of the peso. A currency devaluation is seen as "unavoidable" by most equity investors.

"The currency situation is going to underpin uncertainty in the short-term and we are underweight. But on a longer view we still find Manila attractive," said one broker. On a 1997 price-earnings ratio at 14.5, it offers a clear discount to the 15-plus for neighbouring Jakarta. Philippines corporate earnings are expected to grow by about 25 per cent this year and next. Unless the currency scares get out of hand, most pundits suggest there is a firm floor under equities at around 2,750 on the composite index.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY JULY 1 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY JUNE 30 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	241.57	0.3	216.00	175.28	218.54	213.38	-0.2	3.61	240.82	214.54	174.19	218.17	213.80	241.57	188.44	201.80
Austria (25)	196.74	2.2	175.92	142.76	177.98	177.86	2.1	1.85	192.46	171.46	139.21	174.36	174.25	200.52	174.70	181.44
Belgium (30)	253.78	1.0	226.91	184.14	229.58	224.79	0.9	3.04	251.36	223.93	181.82	227.72	222.85	255.57	208.76	210.51
Brazil (30)	304.32	2.5	272.11	220.82	275.30	603.18	2.6	1.21	296.76	264.38	214.65	268.85	588.09	308.71	170.26	180.73
Canada (127)	208.45	-0.1	186.38	151.25	188.58	208.36	0.0	1.75	208.57	185.81	150.86	188.96	208.36	212.99	164.12	160.05
Denmark (32)	391.16	1.6	349.75	283.83	353.86	352.48	1.5	1.45	384.98	342.97	278.47	348.77	347.19	393.16	303.10	304.70
Finland (28)	286.04	0.9	255.76	207.55	258.77	311.32	0.8	1.77	283.46	252.53	205.03	256.80	308.99	287.57	186.87	184.17
France (84)	237.50	2.6	212.36	172.33	214.88	218.45	2.5	2.40	231.42	206.17	167.40	209.66	213.13	237.50	181.69	214.86
Germany (59)	218.68	1.1	195.53	158.67	197.83	197.83	0.9	1.43	216.36	192.75	156.50	196.01	196.01	219.98	168.70	172.26
Hong Kong (66)	539.30	0.0	482.21	391.32	487.88	536.29	0.0	2.83	539.29	480.45	390.08	488.57	538.41	539.30	407.55	389.50
Indonesia (27)	252.55	0.9	225.82	183.25	228.47	376.71	0.9	1.72	250.17	222.87	180.95	226.64	373.30	283.04	183.82	216.06
Ireland (17)	354.53	1.2	317.00	257.24	320.72	328.95	0.6	2.92	350.24	312.02	253.33	317.30	327.09	354.54	270.08	268.90
Italy (56)	97.61	2.1	87.28	70.83	88.31	123.52	1.7	2.00	95.62	85.18	69.16	86.63	121.60	98.92	73.26	81.13
Japan (485)	138.98	-2.0	122.38	99.32	123.83	99.32	-1.7	0.79	139.62	124.39	100.99	126.49	100.96	158.51	107.57	158.51
Malaysia (107)	510.31	-0.0	456.29	370.28	461.65	496.12	0.0	1.39	510.32	454.63	369.13	462.32	496.07	660.85	508.78	580.27
Mexico (27)	1612.84	1.4	1441.93	1170.13	1458.88	13976.70	1.1	1.33	1590.17	1416.65	1150.21	1440.62	13829.74	1612.84	1110.33	1205.22
Netherland (19)	404.24	2.1	361.45	293.32	365.70	361.38	2.1	2.15	395.84	352.65	286.32	358.61	353.96	404.39	279.86	298.54
New Zealand (14)	94.69	-0.3	84.67	68.71	85.66	74.05	-0.5	3.92	94.94	84.58	68.67	86.01	74.39	95.60	76.04	80.27
Norway (41)	316.91	1.3	283.37	229.95	286.70	314.21	1.1	1.96	312.86	278.71	226.29	283.42	310.86	321.23	246.04	253.44
Philippines (22)	166.78	-0.2	149.13	121.02	150.86	219.21	-0.2	0.97	167.19	148.95	120.94	151.47	219.77	219.44	148.37	214.86
Singapore (42)	388.54	0.4	346.62	280.47	349.68	254.69	0.4	1.20	384.92	342.91	278.42	348.72	253.62	448.01	360.08	413.02
South Africa (44)	362.48	0.0	324.11	263.01	327.91	358.78	-0.1	2.42	362.44	322.89	262.16	328.35	359.22	370.11	301.46	360.74
Spain (33)	266.88	1.4	238.63	193.65	241.43	297.39	1.4	2.23	263.31	234.58	190.46	238.55	293.39	267.06	171.91	183.85
Sweden (49)	484.82	0.4	433.50	351.78	438.59	554.66	0.4	1.86	482.82	430.14	349.24	437.42	562.69	486.98	334.36	358.40
Switzerland (33)	312.27	0.5	279.21	226.56	282.49	282.53	0.6	1.19	310.59	276.70	224.66	281.38	280.73	317.50	231.69	244.28
Thailand (42)	56.74	0.0	50.74	41.17	51.33	57.05	0.0	5.41	58.74	50.56	41.04	51.41	57.05	172.92	47.55	168.41
United Kingdom (213)	306.20	2.0	275.57	223.63	278.81	275.57	2.4	3.64	302.01	269.05	218.45	273.60	268.05	308.21	229.63	234.72
USA (645)	360.76	0.6	322.57	261.77	326.36	360.76	0.6	1.71	358.45	319.34	259.28	324.74	358.45	363.86	254.79	276.05
Americas (829)	330.22	0.7	295.26	239.61	298.73	278.10	0.6	1.70	328.10	292.30	237.32	297.24	276.32	332.73	233.09	251.06
Europe (719)	273.53	1.7	244.57	198.47	247.45	254.05	1.7	2.51	269.04	239.69	194.61	243.74	248.71	273.53	204.71	211.82
Nordic (150)	412.51	0.8	368.84	299.31	373.17	409.89	0.7	1.80	409.44	364.76	296.16	370.93	407.21	412.51	301.45	305.66
Pacific Basin (881)	155.64	-1.5	139.17	112.93	140.80	114.02	-1.3	1.25	157.96	140.72	114.25	143.10	115.48	169.22	127.18	189.22
Euro-Pacific (1600)	204.85	0.3	183.16	148.64	185.32	166.79	0.4	1.95	204.32	182.03	147.79	185.10	166.10	208.60	172.55	186.88
North America (772)	351.32	0.6	314.13	254.92	317.82	350.59	0.6	1.71	349.19	311.09	252.58	316.35	348.46	354.37	248.65	267.94
Europe Ex. UK (506)	248.23	1.4	221.95	180.11	224.58	235.84	1.4	1.88	244.67	217.97	176.98	221.66	232.90	248.77	185.88	194.00
Pacific Ex. Japan (396)	317.54	0.1	283.93	230.41	287.26	279.09	0.0	2.68	317.13	282.53	229.39	287.31	279.16	320.85	268.97	267.93
World Ex. US (1828)	208.47	0.3	186.41	151.27	188.60	173.51	0.4	1.94	207.89	185.21	150.37	188.34	172.83	210.13	178.94	188.06
World Ex. UK (2260)	251.96	0.3	225.29	182.82	227.94	222.20	0.3	1.63	251.28	223.85	181.75	227.63	221.25	252.98	198.58	212.97
World Ex. Japan (1988)	318.42	0.9	284.71	231.05	288.06	306.16	0.9	2.04	316.46	281.03	228.18	285.79	305.26	318.42	233.10	247.25
The World Index (2473)	256.82	0.5	229.63	186.35	232.33	227.25	0.5	1.83	255.67	227.78	184.94	231.63	226.10	257.44	202.82	214.95

CONSTITUENT CHANGE WITH EFFECT 3/7/97: Deletion: UCB (AFV1) (Belgium). Latest prices were unavailable for this edition. Markets closed 1/7/97: Canada, Hong Kong and Thailand.

Tax rumours send Paris down 1.6%

EUROPE

Fears for changes in corporation tax threw PARIS into confusion and the market swung wildly within a range of 106 points on the CAC 40 index in volume of 19.1m shares.

Initially, French equities picked up where they left off on Tuesday, advancing by a further 1 per cent by late morning. But a government statement that changes in company tax were under consideration sent shares rapidly into reverse.

"For about an hour it was pandemonium. It's still not clear what is going on," said one trader. At one stage the CAC 40 was back down to 2,879.63. The eventual close was 2,895.92, down 48.12 or 1.6 per cent on the day.

Leading capitalisations were the heaviest casualties, Total fell FFr22 to FFr598 and Elf Aquitaine FFr20 to FFr630. Renault tumbled FFr6.10 to FFr147.90 and Sanofi lost 27 or 4.5 per cent to FFr572.

News of the injection of insurance assets into its UK unit, Sun Life, helped push Axa-UAP up 60 centimes to FFr370.6. Rhône-Poulenc rose FFr6.10 to FFr258 after a leading broker was said to have lifted its target price for the shares to FFr280.

Eurotunnel was a strong feature, trading 13m shares and advancing 65 centimes or 9.4 per cent to FFr7.55 after the UK and French government extended the group's operating licence.

AMSTERDAM broke through to an all-time high thanks to a soaraway performance from KLM which rose Fl 3.40 or 5.6 per cent to Fl 63.7 on a renewed wave of merger speculation.

The upsurge for the shares followed the Dutch flagship airline's confirmation that it was in talks that could lead to the disposal of its 19 per cent stake in North West Airlines of the US.

According to one of the day's more persistent stories, the North West share sale was being set up by KLM as a precursor to an eventual link with the British Airways and American Airlines alliance.

Elsewhere among internationals, Royal Dutch continued to improve, adding Fl 1.30 at Fl 108 and Unilever Fl 7.60 at Fl 430.9. Aegon gained Fl 3.20 to Fl 141.7.

At the close, the AEX index was up 7.71 at 879.02.

FRANKFURT pressed on to a second consecutive record high, as sectoral rotation helped the banks and the firm dollar provided support for export-oriented chemical companies. The Ibis-indicated Dax index was up 32.69 at 3,897.53.

Deutsche Morgan Grenfell said it had lowered some earnings estimates for Bayer and BASF. It also reduced 1997 earnings estimates for Hoechst but raised its forecasts for the company for 1998 and 1999. Hoechst, which rose nearly 6 per cent on Tuesday, gave up 9 pfg to DM78.70 while Bayer picked up 70 pfg to DM70.85 and BASF was 20 pfg higher at DM66.10.

Deutsche Bank helped to lead the advance in financials with a rise of DM1.55 to DM104.55 while Daimler added DM2.60 to a record DM145.70.

ZURICH moved ahead in cautious trade, led by gains in Novartis and Nestlé in response to the firm dollar, and the SMI index finished 19.5 higher at 5,674.3.

Novartis gained SFr7 to SFr2,351, and Nestlé was marked SFr23 higher at SFr1,937.

Alusuisse lost SFr11 to SFr1,505 as speculation eased ahead of tomorrow's news conference.

CS Group stood out among the financials with a SFr2.50 rise to SFr194.50 as the chief executive confirmed an earlier forecast of a 35 per cent rise in operating profit for the first half of the year.

A SFr42 rise to SFr1,715 in SAirGroup was attributed to expectations that the airline might profit from British Airway's difficulties.

MILAN pulled sharply back from its best levels when a large sell order for Telecom Italia was executed just before the market closed. The Comit index stood 19.32 higher at 853.45 but the real-time Mibtel index turned back from a high of 13,700 to close just 17 ahead at 13,494.

Telecom Italia sank from a high of L5,800 to close just L4 ahead at L5,542 in volume of 16.6m shares.

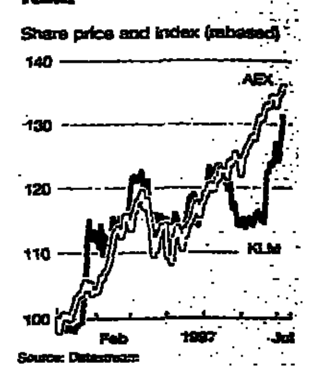
Banks remained at the centre of attention. Ambroveneto roared L417 higher at L5,336 after Tuesday's confirmation that it would go ahead with a capital increase in preparation for the planned merger with Cariplo, the savings bank.

MOSCOW remained on its upward roll, rocketing 5.7 per cent up to an all-time high in record turnover of $100.3m. The RTS index added 24.07 to 447.94.

The market has been on an upward path since mid-April, when the index was below 300 points, helped by new allocations by US and European investors in the face of an improved economic outlook.

Written and edited by Michael Morgan and Jeffrey Brown

KLM



Source: Datastream

FTSE Actuaries Share Indices — THE EUROPEAN SERIES

Jul 2 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2580.24	2584.01	2586.56	2587.42	2585.93	2587.18	2585.03	2585.92
FTSE Eurotrack 200	2540.85	2547.17	2548.37	2548.17	2548.89	2548.72	2548.19	2548.21

	Jul 1	Jun 30	Jun 27	Jun 26	Jun 25
FTSE Eurotrack 100	2537.85	2532.09	2535.29	2536.65	2511.55
FTSE Eurotrack 200	2522.87	2503.67	2509.54	2513.64	2491.92

Base value 1000 (26/10/90). Highday: 100 - 2588.38; 200 - 2551.22 Lowday: 100 - 2568.21 200 - 2546.22 † Partial.

Bangkok soars 7.9% on baht flotation

ASIA PACIFIC

The Thai government's long awaited decision to float the baht sent BANGKOK soaring 7.9 per cent as foreign investors rushed to buy large cap stocks in the banking, finance, communications and energy sectors. The SET index rose 41.51 to 568.79 in turnover of Bt10.4.

Analysts attributed the heavy demand to the perception among foreign investors that the change to a managed float exchange rate system represented a de facto 10 per cent devaluation of the currency.

Prices of blue chips hit their 10 per cent ceilings as early as the lunch break, leaving investors to wait until today before they could start buying again.

All the key sectors were higher. Banks advanced 8.5 per cent, building and materials by 8.3 per cent and communications by 9.4 per cent.

Neighbouring markets were mixed. Kuala Lumpur gained on local retail and institutional buying, Manila dropped 1.8 per cent, Jakarta pulled back after reaching a record high and Singapore also eased.

TOKYO, which saw the 225 index below the 20,000 level for the first time since May, made a late recovery on bargain hunting by pension funds, *writes Gwen Robinson.*

The Nikkei 225 average rose 20.90 to 20,196.42 after moving between 19,975.50 and 20,247.42.

Trading began on a firm note as investors bought back cash stocks following the overnight rise in Chicago of Nikkei-225 index futures. But falling futures prices in Osaka soon prompted arbitrageurs to resume selling cash stocks, sending the 225 index to the day's low by late morning.

Share prices regained momentum in the afternoon, as pension funds and other domestic institutions began buying on dips.

Foreign investors, who had been net buyers in recent weeks, stayed out of the market ahead of the US Federal Reserve Board's two-day open market committee meeting.

Volume shrank from 341m shares to an estimated 294m. Advances led declines 601 to 466 with 205 unchanged. The Topix index of all first-section stocks gained 1.89 to 1,531.27 and the capital-weighted Nikkei 300 was up 0.39 at 296.87. In London, the ISE/Nikkei-50 index rose 0.98 to 1,614.93.

Banks and securities houses mostly retreated. Industrial Bank of Japan fell Y30 to Y1,690 and Sakura Bank Y27 to Y837. Among leading commercial banks, Daiwa Bank was among the exceptions, gaining Y6 to Y555. Leading brokers continued to suffer the effects of the scandal over illegal dealings with racketeers. Daiwa Securities fell Y10 to Y893, Yamaichi Securities Y6 to Y332, Nikko Securities Y7 to Y700 and Nomura Securities Y30 to Y1,520.

Pharmaceuticals mostly gained, but Daiichi Pharmaceutical fell a further Y10 to Y1,990 on reports that its cancer drug had caused nearly 100 deaths.

In Osaka, the OSE average fell 28.68 to 21,085.36 and volume rose to 17m shares.

SEOUL jumped 2.5 per cent on renewed optimism for economic recovery after better-than-expected June trade figures. The composite index rose 19.26 to 777.29.

Some analysts forecast that the market could have another 15-20 per cent to rise this year, particularly since the foreign ownership ceiling was due to be expanded again during the second half.

SYDNEY streaked to a record close as the bull run continued. The All Ordinaries index leapt 24.7 to 2,745.9 after a day's peak of 2,751.4, extending to 17.5 per cent the market's rise from its low for the year on April 3.

HONG KONG remained closed, but was expected to reopen on a broadly firmer note today. Analysts noted, however, that the new government's plans to curb high property prices could hurt the property sector. An indicative index of Hong Kong shares traded in London dipped 81.19 to 15,115.60.

SOUTH AFRICA

Shares in Johannesburg were mixed with industrials gaining ground but golds receding on a dull bullion price. The all-share index closed off 3.4 at 7,416.7.

Murray & Roberts fell a further R2 to R898 after Tuesday's profits warning, but industrials were mostly higher. The industrial index ended up 23.8 at 8,832.5. Golds dipped 3.9 to 964.7.